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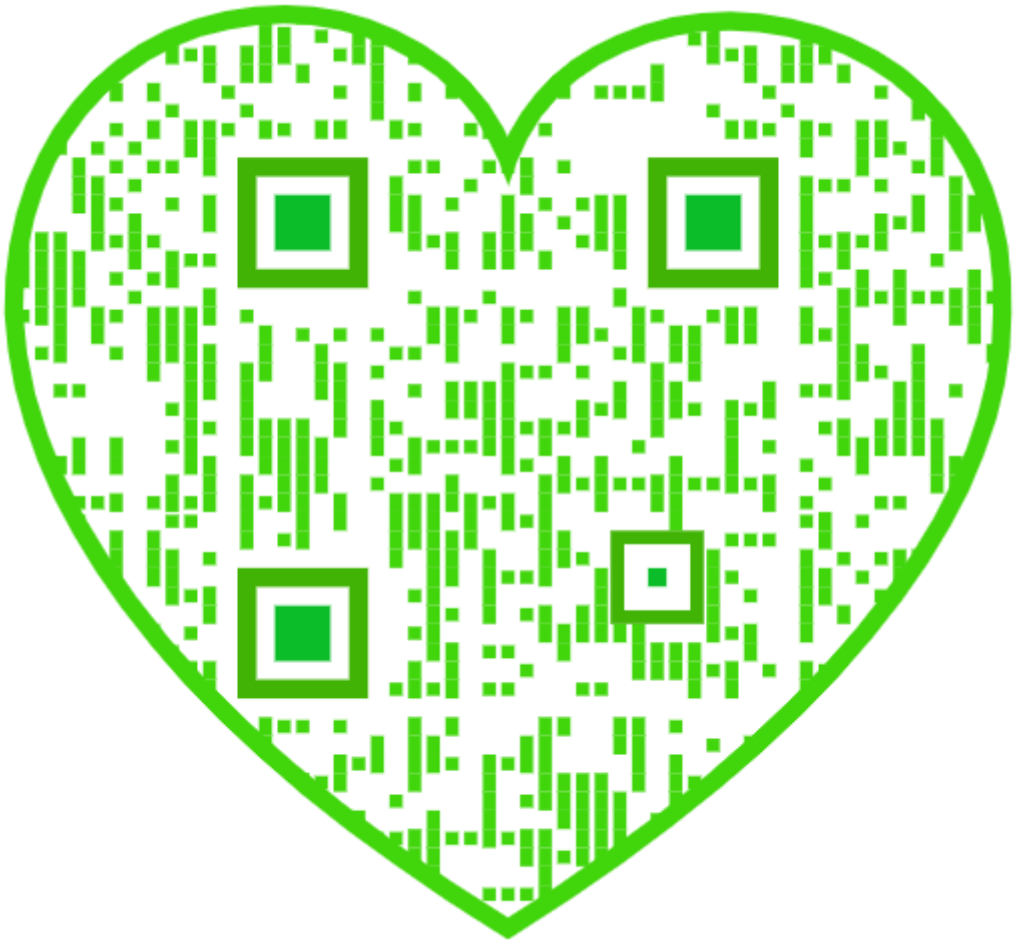

THE HISTORY, PRINCIPLES AND PRACTICE OF BANKING

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THE HISTORY, PRINCIPLES AND PRACTICE OF BANKING

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THE

HISTORY, PRINCIPLES, AND PRACTICE

OF

BANKING.

SECTION XXIV.

THE ADMINISTRATION OF THE OFFICE.

THE arrangement of the office is dependent to a great extent upon its size and character. The head office of a large bank in the City of London, or one of the more important provincial towns, will usually find it necessary to allot a separate room, or set of rooms, to each of the more important departments. For instance, the main office will contain, besides the main counter, divided between the paying cashiers and the receiving cashiers, a country department, for the transaction of business connected with the customers of the bank's branches or country correspondents, and a pass-book department. In close proximity will be the security office for the deposit and withdrawal of security for advances, the lodgment of securities for safe custody, the purchase and sale of stocks and shares for customers, and the collection of coupons; the bill office, where all business with regard to bills of exchange is transacted; the inquiry office, where replies are given to inquiries made by other banks as to the

standing and respectability of the bank's customers; and the bank parlour, or general manager's office, where the bank's customers can consult the partner or manager on those more important matters which require the latter's personal attention. These are the more public of the bank's departments, and though their position must be determined to some extent by the amount of space at the bank's disposal, they should be easy of access from the main office.

Upstairs will usually be found those departments which are not in such close contact with the customers of the bank; the transfer office, where the shares of the bank, if it is a joint-stock company, can be registered and transferred and the dividends forwarded to the proper quarters; the inspector's office, from which the work of the branches is superintended and to which the care of the bank staff is usually intrusted; the chief accountant's office, from which the bank's system of book-keeping is controlled; the town and country clearing offices, if it should be a clearing bank; the bullion office, and other departments according to the size and the methods of organization of the individual bank.

The organization of the main office is usually controlled by the chief clerk, and the degree of smoothness with which the work of the office is transacted is largely dependent on his ability. The task of properly managing a staff of maybe some hundreds of clerks is no light one, and besides needing considerable administrative ability, it calls both for firmness and for tact in dealing with men. The work of the office requires to be so distributed that the least possible time is wasted, and each clerk fully occupied during the whole day. But however good the organization, it constantly happens that extra pressure occurs in some quarter which will necessitate clerks being drafted from some other part of the office where the work

is slacker. In busy seasons, too, some department or other of the office will be sure to require clerks for working after the usual hours in order to clear up arrears of work. It is therefore evident that to avoid friction and to obtain the greatest amount of work from each clerk is not always an easy matter. A well-known banker recently stated that he had no room for dissatisfied men in his office. If they were not reasonably content they had better go. If his bank contained no dissatisfied men he was perhaps fortunate beyond the lot of most bankers; but whether this be so or not, the reason for his statement will be widely appreciated. It is easy to force men to work, but the value of the work so obtained is far less than that of services readily and cheerfully given; and the chief clerk who can not only exact obedience, but can inspire confidence in, and be met with the ungrudging acquiescence of, his subordinates, is the man best qualified, from every point of view, for the office.

In a branch bank the organization of the office is of course a simpler matter. As a rule the whole staff will be accommodated in one office. This is generally so arranged that the cashiers are in close touch with the ledger keepers, so that a doubtful cheque can be referred to the latter by the former as unobtrusively as possible, to avoid giving unnecessary offence to the customer, should he be present in person. As a rule, in branch banks no distinction is drawn between paying and receiving cashiers. Another difference is, that while in the City of London it is an almost universal custom to have a grille or open screen on the public side of the counter to prevent pilfering or snatching, in suburban and country offices this is usually absent.

A bank was at one time, not very distant from the present, considered a harbour of refuge for the young man

who did not care to face the rough-and-tumble of ordinary commercial life, and who lacked the means or the opportunity of entering one of the learned professions. The duties were light, the prospect was certain if not brilliant, and the stigma which at one time attached to trade was avoided. But times have considerably changed since then. In country districts the conditions of work are certainly still much the same as they were; but the man who enters a bank with the idea of sauntering along with the minimum of exertion to the inevitable managership in early middle age, will probably soon suffer a rude awakening. In London and all the large towns a junior bank clerk will have to work hard for years, in all probability very hard. He will find competition for the higher posts severe, and probably notwithstanding all his efforts, progress will be grievously slow. The days when banks rapidly expanded, and new posts of responsibility were constantly created, is gone for ever. The country is covered with a network of branches, and most banks have approached the limit of expansion, except by the process of absorbing other banks, in which the higher posts are already filled.

Complaint is almost universal among those who have adopted banking as a career, of the terrible slowness of promotion and the long years of drudgery in subordinate positions. Yet it is hard to see how any improvement can be expected, except at the expense of the less able of the staff, and to the ambitious man who wishes quickly to carve out a career for himself without the tax on his patience entailed by gradual progression up the ladder of promotion, the best advice is, to leave banking and pursue some calling where the greater risk of absolute failure is compensated by a possibility of a more rapid rise. Any one contemplating a career in a bank would be wise to remember that bank clerks enjoy fixity of tenure to an

unusual degree, and that this is seldom co-existent with quick progress. Except in cases of culpable negligence, ill-health, or very abnormal circumstances, a bank clerk's appointment lasts for his working life, with, as a rule, the certainty of a pension at the end, and men who have worked for long with such a prospect in view are perhaps rather apt to lose sight of its value, and to fail to estimate properly the disadvantage under which men in other walks of life labour, in not knowing whether the near future may bring brilliant success or absolute failure.

But not only is promotion becoming increasingly slow in banks, it is also becoming evident that only a proportion of the men who enter the service of a bank can ever hope to reach a position of responsibility. The man who hopes to rise above his fellows must therefore, besides possessing a large stock of patience, work hard and neglect no opportunity of qualifying himself for higher posts. Speaking generally, brilliance is neither required nor expected from a bank clerk. The most successful man, at all events in the lower ranks of his profession, is the one who can get through a lot of work with the fewest possible mistakes. Thoroughness is the first thing to aim at. As a writer in the "Bankers' Magazine" recently very aptly put the matter, a clerk's work must be done "thoroughly, neatly, and quickly, not quickly, neatly, and thoroughly." Much of the junior clerk's work in a large office has to be got through at very high pressure, and the temptation to consider pace as the chief object is sometimes great. Especially in that part of the day's routine which consists in checking the work of other clerks is it fatally easy to take things for granted and "chance" an error, though certain in the long run to lead to trouble. Even when the work is not so heavy, mistakes are apt to occur through want of thoroughness. One's attention is apt to wander at seasons

when the whole of one's energy is not needed in order to cope with the task in hand, and it is well known that such slack days are especially productive of mistakes. The power of absolute concentration is of the utmost value to a bank clerk, and should be trained to become a habit. When this habit is joined to the power of rapidly transferring the attention from one task to another without confusion of thought or loss of time, the individual will be found to be well on the road to qualification for any work which is likely to be intrusted to him.

Clerks are usually admitted into a bank about the age of seventeen in the country, and a year older in London, the commencing salary in the first case being from £40 to £60 a year, and in the latter £60 or £70. Some banks, however, take clerks for their country branches at as early an age as fifteen or sixteen, the commencing salary being in this case lower. Each successful applicant is usually required to pass an entrance examination of such a kind as to give proof of a proper school education, or to produce a certificate from some recognized examining body, and he must then be medically certified as of sound constitution. He will then have to provide security against possible loss to the bank which might accrue from dishonesty on his part. Many of the large banks have a guarantee fund of their own to which each clerk pays an annual sum averaging during the early years of his career about £2 or £3. This fund is liable for any losses incurred by defalcations up to the amount for which each clerk is guaranteed, usually £500 for junior clerks and increasing as promotion is obtained. When the total of the fund reaches a certain maximum, any excess is usually transferred each year to the staff superannuation and provident fund, so that in contributing to the fund the members of the staff have the satisfaction of feeling that they are helping to insure their

future retiring allowance. If the bank possesses no guarantee fund, the clerk will probably obtain the bond of one of the guarantee societies which undertake this class of insurance, and will pay a yearly percentage to the society, usually about 10*s.* per cent. of the amount guaranteed. When these preliminaries have been satisfactorily settled, the candidate will usually be appointed as a probationer. This stage in his career will probably last for three or six months, during which period he may receive no salary at all, or at a lower rate than that which he will receive on the ratification of his appointment. If at the end of his probation his manager reports satisfactorily upon his ability, he will be then duly appointed as a member of the bank's staff.

If the clerk is stationed in London or a large town, he will probably find the hours of work rather long for the first few years. In this respect the clerk in the country town will have a big advantage, and though the London men are paid a higher salary, it is doubtful whether the difference is sufficient to cover the extra expenses of travelling, lunching at a restaurant, and other incidental expenses. Nevertheless, country clerks are usually eager to obtain the opportunity of getting to London, under the impression that the opportunities of promotion are greater. This is no doubt partly true, but it should be borne in mind that there are far greater opportunities in a country branch of obtaining a general practical knowledge of the work of a bank. A capable man in a country branch will soon find the means of understudying men in a higher position than his own. In London he may find that for years he has neither the time nor the opportunity of gaining any experience outside his own corner of the office, and that owing to the minute subdivision of the work, his knowledge of the general routine as a whole is of the

scantiest. For this reason the young clerk should welcome the opportunity of moving from branch to branch, irksome though the changes may be from a personal point of view. Very few branches of any bank have exactly the same methods, and these slight differences in the way of doing the same thing are of the greatest value in stimulating interest and developing a wider outlook. There is always a real danger in a bank of getting into a groove, of performing the daily routine in a merely mechanical way. Much of the work required of a bank clerk during his earlier years is mere drudgery, and the constant repetition of the same task sometimes results in the clerk becoming not only quite unfit, but even quite unwilling to undertake any real responsibility.

There is one aspect of a junior clerk's career which gives rise to very wide-spread discontent—discontent which is in many cases only too well justified; that is in the matter of holidays. For the first ten years or so it is usual to grant a fortnight's holiday each year, but in many cases these "summer" holidays will have to be taken in either February or November, and in a London head office it may be ten or twelve years before it is possible to approach as near the real summer as, say, May. As most of the young clerks have come straight from the comparative freedom of school, or have even enjoyed a year or so of complete idleness, the necessity of taking their only holiday in the winter every year is naturally trying, more especially as, owing to the nature of the work in a bank, which mostly admits of no delay, it is extremely difficult to get a casual holiday or half-holiday. A few London banks to some extent obviate the difficulty caused by the impossibility of sparing more than a limited number of clerks at any one time, by allowing each junior clerk to take one annual holiday out of every three in the summer months, and this

is an example which might with advantage be followed by other banks.

Most banks grant their clerks a yearly increase in salary of £10 until they reach from £150 to £200 a year, with larger increases in the case of exceptional merit. After the limit just mentioned is reached, further increases in salary usually depend upon promotion. Some banks, however, divide their staff into classes, after the method adopted in certain Government offices. Each clerk then gets a regular rise in salary, until he reaches the maximum of his class. Any further increase is conditional upon his promotion into the next class.

The first thing which every bank clerk should aim at is the cultivation of a legible and neat style of handwriting, and of figure formation. It is perhaps only given to the few to be able to write really well, but every man who is physically sound can with care and perseverance acquire a legible style of handwriting, in spite of the fact that the great pace at which the work in a large office has to be done is very destructive of good writing. Most of the higher officials in banks, whose duty it is to manage the staff, know the great difficulty there is in finding men who can write plainly, and when it is remembered that in the case of clerks stationed at branches, almost the only direct knowledge of their capabilities which their head office possesses, is through their written communications, it is rather surprising that more pains are not taken by clerks to improve their writing. Just as important is it that figures should be plainly written and placed under each other when in columns of figures, so that they can be added with the least chance of error. In case a wrong figure or word is written down, no attempt should be made to alter the figure or write another on the top of it. This is a slovenly and untidy habit which is much too often indulged in. It is

much neater to draw a line through the wrong figure or word and rewrite it.

Another thing which the young clerk will find out after a short experience is, that, however much work he has to get through in a given time, there is a pace beyond which he cannot safely go, and that to attempt to exceed that pace will inevitably be waste of time, for the extra time gained will not compensate for the time spent in finding out and correcting mistakes. What the limit of speed is will of course vary in individual instances, but each man will find out for himself how fast he can work with accuracy and thoroughness.

Another piece of advice which may be given to the young bank clerk is, that he should never trust to his memory. A good memory is an excellent servant but a poor master. Every clerk should keep a rough diary or a letter clip for fastening odd sheets of paper together, and when he receives an instruction to do something at a future time, he should *immediately* make a written memorandum of it. To trust to one's memory entirely is only to unnecessarily burden oneself, besides courting the risk of failure, for even the best memories are treacherous. Moreover, with an overburdened memory one is often unable to give that concentrated attention to the immediate work on hand which is so necessary to success.

The junior clerk should use every opportunity of becoming acquainted with the work of the men immediately above him in rank, so that he can undertake their work at a moment's notice should an emergency arise. A good opportunity of acquiring a knowledge of the theory of banking is afforded by the examinations of the Institute of Bankers, the passing of which is encouraged by nearly all the leading banks by the offer of a monetary grant to successful candidates. But the young clerk should not

let his enthusiasm for theoretical knowledge blind him to the fact that the passing of an examination is only a means to an end, and not an end in itself. The value of the knowledge so gained is shown in the increased ability to cope successfully with the daily work of the office. In banking, as in all other commercial pursuits, this is the sole standard of success, and the clerk whose attention is wandering towards the solution of some delicate problem of law when it should be concentrated on writing up a pass-book, is pursuing the wrong road to success. But if this proviso is kept in mind, the acquisition of a thorough knowledge of the theory of banking is of the greatest value. It must be a thorough knowledge, and should not end with the mere passing of an examination. Besides giving its possessor that feeling of confidence and power which will enable him to face increased responsibility with an easy mind, the attainment of distinction in the theoretical side of his business will bring his name into more prominence, and he will be more likely to be remembered by the higher officials when the question of promotion is being considered. When it is remembered that the staff of some of the large banks is numbered in thousands, the advisability of setting one's light on a candlestick and not under a bushel will be recognized; for even the most well-meaning and most capable of the officials who have charge of the staff are, after all, but human, and there is always a chance of merit being overlooked.

When a clerk is promoted to be a cashier, he will do well to remember that by his demeanour towards the customers he can, to an important extent, influence the progress of the bank either for good or ill. Discourtesy on the part of a cashier is unpardonable, and no pressure of work, however severe, can excuse it. On the other hand, the cashier should not cringe; it is both undignified and unpleasant; neither

should he adopt too effusive a bearing, as though the customers were intimate personal acquaintances. What is required is nothing but ordinary politeness, with a little added consideration for the want of business knowledge in a certain section of the public. Bank cashiers have the reputation of being over-officious. No doubt this is due to the multitude of rules with which they are sometimes hedged in on their own side of the counter. But there is no need to fling these rules in the face of the public, nor to adopt the tone of "this must be done," or "that can't be done," more than is necessary. With a little diplomacy and tact the due observance of the regulations can be attained without the customer feeling that he is the victim of unnecessary and ill-considered "red-tape."

In selecting clerks for promotion to the more responsible positions in a bank, those of branch manager, or the heads of departments at the head office, something more is looked for than the possession of those business habits which make a good subordinate, although unless a man has shown himself a good clerk, he will seldom get the opportunity of proving his ability in the higher positions.

The branch manager's position is a delicate one. He is the buffer between the bank's customers and the board of directors, and he will often find himself in a position when it is impossible to please both. Of course, a manager's first duty is to obey his directors' instructions; but, on the other hand, he is in a better position to judge of the facts in individual cases than his directors, and if he believes that the latters' instructions are detrimental to the best interests of the bank, he should not be content with slavish obedience to orders without first thoroughly and clearly laying his own views before his board. Long years of work in a subordinate position occasionally render men too subservient to the letter of their instructions, and too fear-

ful of any departure from the usual routine. A bank manager is not a mere channel for instructions from the head office. Were this so there would be no need to pay him so high a salary. He is paid to assume responsibility within certain limits laid down by his directors.

In making loans the manager is usually allowed to act upon his own responsibility up to a specified limit, which will depend upon the importance of the branch, and varies from say £100 up to as high as £500. In the case of advances for a greater amount than the specified maximum, the branch manager will apply to the head office for sanction before making the loan, taking care to give the fullest details, and giving his reasons for favouring or discouraging the proposal. Occasionally he may find his application declined, although he has strongly recommended its sanction, but, although from the point of view of his own branch he cannot but regard the refusal as disappointing, he must remember that the directors are compelled to regard their loans as a whole, and that, viewed as such, it may be necessary to avoid increasing their total amount.

Naturally, a manager will feel keen interest in the progress of his branch, but he should not allow his keenness to lead him into methods which will not bear the light of publicity. Competition between banks is natural and inevitable, and, within certain limits, is only a sign of healthy business activity. But beyond these limits, which are well recognized and sanctioned by long tradition, competition should not be allowed to go. Bankers have in the past always prided themselves upon possessing a stricter code of business etiquette, and a sounder commercial morality, than the general average prevailing amongst business men, but signs are not wanting of a slacker feeling and a degenerate tendency in this respect. "Touting" for business, tempting the customers of other banks to move their

accounts by specious offers, and similar business methods, are not only subversive of that good feeling which should always exist between bankers or bank managers, rivals though they be, but they are damaging to the bank which adopts such tactics. Not only are reprisals invited, but a bad name among the public is inevitably gained, and the bank which encourages them cannot hope to be regarded as first class. Moreover, looking at such excessive competition in its broadest aspect, it is both deplorable and dangerous from the point of view of the public; because, if pursued to any extent, it must infallibly lead to a reduction in the rate of profit, and in order to keep up dividends to the customary rate banks will be strongly tempted to entertain business of a more lucrative but a less safe character. Banks are not quite in the same position as other business men; they are custodians of immense sums of the public's money, and any relaxation of the prudent and cautious methods which have for many years characterized joint-stock banking enterprise in this country would be very regrettable.

Any detailed account of the ordinary routine of the office must necessarily be incomplete, owing to the varying systems favoured by individual banks, but the following general rules are insisted upon by most bank managers or other officials responsible for the administration of the office.

The manager will himself, or with the assistance of his chief clerk, call over every day with the check ledger or day-book the entries posted in the ledgers the previous day. This is the only satisfactory method by which the manager can keep closely in touch with the state of his customers' accounts. He will also at irregular intervals and without previous warning count the coin in the cashiers' tills and in the reserve. This is usually done not

less than twice in each month. The manager will also count the stock of notes at the close of business each evening.

The doors of the strong-room and safes in which the money and securities are lodged should be fitted with two locks, and the keys should be held, one by the manager and one by a senior clerk, but on no account should both keys be allowed at the same time in one individual's possession. If necessary there can be a separate or outer strong-room for containing the books of the office, for which a double lock may not be thought necessary. Whenever it is possible, a duplicate set of keys for use in emergency is lodged with a neighbouring branch within a short journey.

Any discrepancies which may occur in the cashiers' tills should be reported to the chief clerk and debited or credited to the Over and Short in Cash Account not later than the day following that on which the mistake occurred.

Each day's entries in the current account ledgers should be posted on the same day, and the balances extended in the column provided for that purpose not later than the succeeding morning.

A daily balance of the work of the office should be struck and agreed accurately, when possible on the evening of the same day, with the total of the cash in hand and other effects. In many offices the work of finding any differences which may occur is deputed to a "balance party," which consists of a certain proportion of the staff of the office, say a fourth or a sixth, and upon which every clerk serves in turn. This system allows the greater part of the staff to leave the office at an earlier hour than they otherwise would, and it further gives the clerks, especially the junior clerks, an opportunity of

learning something about the general work of the office, an opportunity which they otherwise might not find it easy to obtain.

Great importance is usually attached to the checking of all the entries in the books. If the system of book-keeping is a good one, this check will usually be provided by the books themselves, for bank book-keeping is always upon the double entry system, although it differs at first sight very largely from the ordinary commercial system. But although many books can be checked by comparing their totals with those of other books, yet there is always a great deal of work which requires to be independently checked by another clerk. The clerk who is responsible for this checking should, when possible, be one who is senior in standing to the clerk who has made the entries, and any shirking of the former's duties, or any want of thoroughness in correcting mistakes, should be regarded as a serious offence.

In most banks the work of writing up the pass-books is intrusted to the junior clerks, but it is not advisable to allow a clerk to attempt this part of his work until he has given some proof that he is capable of doing it neatly and legibly as well as correctly. Many bank pass-books are sent out in a condition to which these words could not possibly apply, and the result cannot but be unsatisfactory from the point of view of the bank. Not only is the impression conveyed to the customer that the whole of the bank's work is carried out in a slovenly fashion, but the customer is often irritated by the inability to correctly read the entries. In some cases serious mistakes may ensue. The entries to the customer's debit can, it is true, be checked by the customer's own books or the counterfoils of his cheque-book, but when amounts are paid to his credit by other parties he may have no means of

checking the name or amount, and a carelessly written name may easily result in complications.

In most banks the use of the penknife for making erasures is strictly forbidden, and in order to prevent fraudulent alterations, it is advisable that this rule should be enforced in all cases.

Neither clerks nor managers are, as a rule, allowed to engage in any other business or profession without obtaining the requisite sanction. This rule is necessitated by the fear, which experience in the past has unfortunately justified, that the official may be induced to abuse his position in the bank in order to obtain special advantages in the business he is carrying on outside. It is very necessary, for instance, that a bank manager who has the power of granting or withholding a loan, should not be open to the temptation of extorting terms in return for his consent to the proposal. There is also a danger that the clerk may become financially involved by unsuccessful trading, and that, driven to desperation by the fear of impending bankruptcy, he may be unable to resist the temptation to "borrow" some of the bank's money to tide over the crisis. As a rule, however, an application to be allowed to undertake clerical or literary work in the evenings would not be refused, though the junior clerk in a busy office will find that he has little leisure or energy left for further work after he leaves the bank.

Most banks require their staff to refrain from a too active participation in politics, whether parliamentary or municipal. No bank would of course wish to debar any of its clerks from recording their votes at election times, or to conceal their political opinions, but the more public forms of political propagandism, such as serving on party committees, public speaking on election platforms, and canvassing for votes, are regarded with decided disfavour.

Carried away by the violence of party feeling men are apt to allow zeal to outrun discretion. A banker's relation to his customers is a confidential one, and he cannot afford to obtain a reputation for want of discreetness.

The above are but some of the more general rules required to be observed by the majority of banks. Any attempt to go into greater detail would be futile, owing to the difference in the systems of book-keeping adopted. One observation may, however, be hazarded, and that is, that the system of card indexes might with advantage be more widely used than it is at present. Attempts have been made to induce bankers to use ledgers constructed on this principle, that is, with movable folios, which can be added to at will and always kept in alphabetical order. The advantages are obvious, for however carefully a ledger is spaced when it is first opened, it will be found that its alphabetical arrangement is little more than nominal by the time it is full. But the new system has found little favour in England; no efficient safeguard against the fraudulent abstraction of folios seems yet to have been found, and the bound ledger retains its position in spite of its disadvantages. In other directions, however, the card index is coming into favour. Many banks find it convenient to arrange the names of all their current accounts, with the usual particulars recorded in the ledger headings, in the form of a card index. This is much easier of reference than turning over the folios of bulky ledgers, and it affords a means of obtaining the required information while the ledgers are in use in another part of the office. Again, the keeping of the specimen signatures of customers in the form of a card index is much more convenient than a signature book with an ordinary index. Much time is often wasted in a large office in looking back through the indexes of old signature books for some for-

gotten signature which could be verified in an instant with a card index. Most banks have now adopted the card system for making payments of club subscriptions and other "standing order" payments. The system adopted varies in different banks, but in some the same permanent card serves first for a debit to the customer's account, and is then sent to the head office or London agent as an advice to pay the amount to another bank. Still another use to which a card index can be put is that of a coupon index. If instead of a card a stout envelope is used, the coupons, when cut off in the strong-room, can be slipped inside the envelope, and after they have been listed and checked with the particulars recorded on the envelope, the latter can again be sorted away for future use. Many other possible uses to which the system can be turned will readily occur to the practical banker. Once the index is made, the labour of keeping it up to date is but small, and will be amply covered by the increased convenience.

SECTION XXV.

BANKING BOOK-KEEPING.[1]

"ALTHOUGH the business of keeping books is extremely easy when once the accounts are properly arranged, yet the adaptation of the principle of Double-entry, to extensive and complicated transactions, so as to receive the full benefit of the system, is a process which requires the most complete knowledge, not only of the *practice*, but also of the *science* of book-keeping."

"Book-keeping, like all other arts, can only be mastered by industry, perseverance, and attention. The learner must think for himself, and endeavour to understand the *why* and *wherefore* of all that he does, instead of resting satisfied with vague notions and words devoid of sense."

"The study of book-keeping affords an excellent means of intellectual discipline; that is, when its principles are exhibited as well as their application. When the reasoning powers are called into exercise as well as the memory, the student who has carefully attended to the instructions, and who is the *master* and not the *slave* of rules, will experience no difficulty in unravelling or adjusting any set of accounts, however complicated or diversified."[2]

We have commenced this section with these quotations in order to quicken the attention of the reader to a subject which by those who do not understand it is considered

[1] Not only book-keeping systems, but also the names by which the books are known, vary considerably in individual banks.

[2] "Double-Entry Elucidated," by B. F. Foster.

complicated, and by those who do understand it is considered dull. It is, in fact, neither the one nor the other. But still it is a subject on which it is difficult to write in such a way as to avoid the possibility of being misunderstood. We propose in this section—

I. To notice those Preliminary Operations with which a young Book-keeper should become acquainted.
II. To describe the system of Banking Book-keeping as published in the former editions of this work.
III. To state those Improvements of which this system has been found to be susceptible.
IV. To trace the Resemblance between Banking Book-keeping and Mercantile Book-keeping.

I. Preliminary Operations.

When a young man enters a bank as a clerk, he should be instructed to be careful with regard to his handwriting, or, in his anxiety to write fast, he may forget to write well. If he write a bad hand, he should not be above taking a few lessons from a professor of penmanship, who will teach him to write fast and well at the same time. But, however badly he may write, he should try to write plainly. Plainness is of more consequence than neatness or elegance. He should be very careful in writing the names of the customers of the bank. If he write them illegibly, there will be a loss of time in making them out, or they may be misunderstood, so that money may be posted to the wrong account, and thereby loss arise to the bank. On this account also, when two or more customers have the same surname, he should be very careful to write the Christian names fully and distinctly.

The necessity for writing quickly, and the want of carefulness at first, are the causes why so few bankers' clerks, comparatively, write a good hand. But they should

remember, that this is a most important qualification, and a deficiency in this respect may be an insuperable bar to promotion. Without this attainment a clerk cannot be put to write up the customers' books, nor to make out the country accounts, nor to write the letters, nor to fill the office of secretary. "You ought to be careful to write a plain hand. You impose upon your correspondents a very unnecessary and a very unpleasant tax if you require them to go over your letters two or three times in order to decipher your writing. A business hand is equally opposed to a very fine hand. A letter written in fine elegant writing, adorned with a variety of flourishes, will give your correspondent no very high opinion of you as a man of business."[1]

The young clerk should also be taught to make his figures clear and plain, so that a 2 cannot be mistaken for a 3, nor a 3 for a 5. He should also take care that the tail of his 7 or his 9 does not run into the line below, and thus turn a 0 into a 6, and also that the top of his 4 does not reach so high as to turn a 0 in the line above it into a 9. He should be careful, too, in putting his figures under one another, so that the units shall be under the units, the tens under the tens, the hundreds under the hundreds, and the thousands under the thousands. Otherwise, when he adds up the columns together, he will be in danger of making a "wrong cast."

He will also learn to use both hands at the same time. In counting gold or silver coin, he will count with two hands instead of one, and thus do double the work. In *entering* a number of cheques or bills, while he holds the pen in one hand he will hold a cheque in the other, and then turn over the cheques as quickly as he enters them.

[1] "Lectures on the History and Principles of Ancient Commerce," by J. W. Gilbart.

He will always turn them over one on the back of the other, so that they will be in the same order after he has entered them as before, and when they are "called over" they will come in the same order in which they are entered.

He must also learn to "cast" quickly and accurately. The two main qualifications in this operation are accuracy and quickness. To insure accuracy a clerk will *cast* everything twice over. The first time he will begin at the bottom of the column, and the second time at the top. If he begin both times at the bottom of the column, the association of figures will be the same; and if he has fallen into an error the first time, he will be apt to fall into the same error the second time: but if he changes the order, the association of the figures will be different, and he will not be likely to fall into the same error. Quickness can be acquired only by practice. But he will accelerate his speed by making his figures plain, and placing them strictly in a line under one another. He should also learn to cast without speaking, for the eye and the head will go faster than the lips.

He must also be taught to "call over." When he first comes into the bank he will call this sum, £315 10*s.* 6*d.*, three *hundred and* fifteen *pounds* ten *shillings and* six *pence*, but he will soon learn that more than half these words may be suppressed, and he will say, three, fifteen, ten, six. And so in the larger amount, £4,785 13*s.* 4*d.*, instead of saying, four *thousand* seven *hundred and* eighty-five *pounds* thirteen *shillings and* four *pence*, he will call, forty-seven, eighty-five, thirteen, four. By proceeding in this way, and speaking quickly and yet distinctly, a column of figures may be called over and checked in a very short space of time. He will, however, take care to avoid ambiguity. Thus, if the sum be £40 5*s.* 6*d.*, he will not say, forty, five,

six, as that would mean forty-five pounds six shillings; but he will say, in this case, forty *pounds*, five, and six. In cases where the pounds consist of five figures, the first two denoting the thousands are expressed separately; thus, £25,347 8*s*. 6*d*. is called over twenty-five, three, forty-seven, eight, six; and six figures, say £468,379 8*s*. 6*d*., is called over, four sixty-eight, three seventy-nine, eight, six.

He will also be taught to *balance;* that is, to find the difference between two sums by *addition* instead of subtraction. Thus, if the two sums be £1,347 16*s*. 3*d*. and £4,834 19*s*. 8*d*., he will be apt at first to put one under the other and subtract, in this way:—

	£4,834	19	8
	1,347	16	3
Difference . . .	£3,487	3	5

But he must be taught to proceed by a mental process, and will add the difference to the smaller number, thus:—

	£1,347	16	3	—	4,834	19	8
Difference . . .	3,487	3	5				
	£4,834	19	8				

He performs this operation by beginning with the pence, saying, or rather, *thinking*, "three and five make eight," and so on. And thus the two sides of an account are made to balance; that is, both sides are of the same amount.

The principle of balancing pervades the whole system of book-keeping. For example, we know that if to the amount of cash in the bank last night we add the amount received to-day, and deduct the amount paid to-day, the

remainder will show the amount on hand to-night; and a novice would very naturally put it down in this form:—

	£
Cash on hand last night	100,000
Received to-day	60,000
	160,000
Paid to-day	80,000
Cash on hand to-night	80,000

But an accountant would arrange these four items in such a way as to form a balance, thus:—

	£		£
Cash paid away to-day .	80,000	Cash on hand last night	100,000
Cash on hand to-night .	80,000	Cash received to-day .	60,000
	£160,000	Balance . .	£160,000

In keeping the Progressive Ledger, the principle of balancing is of constant occurrence. The ledger-keeper brings out a new balance every time he turns to an account. But he never deducts—always adds. And if he posts several articles at the same time, the method is the same, thus:—

If the credit balance is				£1,214	3	7
And he posts the following sums						
to the *debit* of the account	£141	2	4			
	8	7	6			
	49	3	11			
	305	4	2			
				£710	5	8

he will add up these items, and mentally add a sum that will make the whole equal to £1,214 3*s.* 7*d.*, bringing out this sum as a new balance, and placing it under the former one as he goes on. Thus he will say, or rather think,—"4 and 6 are 10, and 11 are 21, and 2 are 23, and (here he

must supply the figure) 8 are 31 = 7 and carry 2;" and he puts down the 8 in the pence division of the balance column; and goes on in the same way to the shillings, and afterwards to the pounds. When he has placed this sum, £710 5*s*. 8*d*., he adds up the whole, including this sum, in order to check the operation, and to be sure that he is right.

He will then acquire a knowledge of the names and functions of the different books, and of the terms and phraseology used in book-keeping. The same book is sometimes called by different names in different banks, and different terms are employed to describe the same operations. But every clerk should use the language of the office in which he is placed. He should call every book by its proper name, and employ the phrases which are used by others. For instance, if the word "money" is used to denote coin, he must always use it in that sense; and not say "money" when he means bank notes.

It will be of great advantage to a sensible youngster, if one of the senior clerks should take the trouble to give him a general notion of the system of book-keeping, and show him the connection that exists between the books that he keeps and the other books of the office.

II. We shall now describe the system of Banking Book-keeping, as published in the former editions of this work.

Every person, on opening an account with a London banking-house, enters his name in a book called the Signature-Book, and this book is referred to whenever a draft is presented having a doubtful signature. The person is supplied free of cost—stamps excepted—with a book of printed drafts and a cash-book, called in some houses a Pass-Book, in which is entered an account of his debits and credits, as often as he thinks proper to leave it for that purpose.

London bankers do not usually give receipts for money paid into their hands, but they enter the amount into the customer's book.[1] A person paying money on account of a country bank, will sometimes require a receipt, and he may then be given a simple acknowledgment.

Before explaining the banking system of book-keeping, I will define a few terms which are often used in connection with the subject. By the word *bill* is always meant a bill of exchange not yet due. The word *cash* denotes the various items included in a credit or cash entry, and may denote *due* bills, cheques, bank notes, country notes, or coin. The terms *cheque* and *draft* are used synonymously, and denote an order on a banker, payable on demand. The word draft is never used in London to denote a bill of exchange, though this use of the term is very common in the country. Both bills and drafts are often called *articles;* and if they are cash, they are styled *cash articles.* An *addressed bill* is a bill made payable at a banking-house. A discounted bill is usually called a *discount.* By *money* is always meant coin. To *post* an article is to *place* or *enter* it in the ledger. One book is said to *mark against* another when the same entry is made in both books. One book is *checked by* another, when any error in one book would be detected by some operation in another. To *check* a book, or an account, is to examine it, and prove it correct, or make it so. To *cast,* or *cast up,* means to add together. The *balance* of an account is the difference between the credit and the debit side. An account is said to *balance* when the credit and

[1] It is not now customary to enter credits in a pass-book at the time they are paid in. The custom is a bad one, and inevitably leads to slovenly book-keeping. If a customer requires an acknowledgment it is usual to give him a book of duplicate credit slips, one of which is retained by the banker and the duplicate initialled by the cashier and returned to the customer.

the debit side are of the same amount. To *balance* an account is to enter the balance, and to add up both sides, and then to bring down the balance as a new amount. The *credit* side of an account, or that on which the cash received is placed to the credit of a customer, is the right-hand side as you face the ledger; the *debit* side is the left-hand side.

I shall now describe the various books in the order of the different departments to which they belong.

I.—*The Cash Department.*

The principal books in this department are the following:—

1. Two Waste-Books.—One is called the Received-Waste-Book, and the other the Paid-Waste-Book. In the former is entered an account of all the cash *received*, and in the latter is entered an account of all the cheques and bills *paid*. The Received-Waste-Book is ruled with a double cash column on the right-hand side of the page. In making an entry into this book, you will proceed as follows:—First, enter the name of the party who lodges the money; then enter in the first cash column the particulars of which the credit consists, specifying each particular in the space at the left-hand. In receiving Bank of England notes, the number and date of each note must be mentioned; but if the notes are numerous, make them up in a parcel, and write on the outside the total amount, and the name of the party from whom they were received. Call this parcel "Sundries" in your entry. These parcels of sundries will be marked, and sent to the Bank of England on the following day. Cheques on your own bank are to be entered by the name of the drawer and the amount. Country notes are to be entered by the name of the London

banker at whose house they are made payable. These are distinguished from cheques upon bankers, by stating shortly the number and denomination of the notes—thus, $\frac{1}{10}$ $\frac{2}{5}$. All gold and silver are to be called money. After entering all the particulars of a credit, add them together, and carry out the amount into the farther cash column. At the close of the day add up this outer column, and see that the total agrees with the amount in the Day-Book.

If a customer brings his book with him when he lodges cash, the cashier enters the credit, and returns the book to him, unless it be left at the bank for the purpose of having the debit side also written up.[1]

In receiving money for a deposit receipt, the entry is made in the same way as when the money is placed to a current account; but the words Deposit Receipt, or the letters D. R., are written against the name of the depositor.

In the Paid-Waste-Book is entered an account of all the bills and cheques paid by the bank. This book is ruled on each page with a cash column on the right hand, and another on the left hand, leaving a space between. When a cheque is paid, the amount is placed in the left-hand cash column—then the name of the drawer in the open space—and in the right hand cash column are entered the particulars of the payment. Bank of England notes are entered by their number. It is not necessary to enter the date, as that can be found if necessary either in the Cash-Book of the preceding evening, or in the Received-Waste-Book, or the Lists of the same day. When a deposit receipt is paid, the same order is observed, but the letters D. R. are added. All gold, silver, and copper are called money. At the close of the day, all the payments are added to-

[1] See note on p. 27.

gether, and should agree with the amount in the Day-Book.

Each cashier has a Received-Waste-Book, a Paid-Waste-Book, and a Money-Book.[1]

2. Money-Book.—This is a small book ruled with a cash column on the right-hand side of each page, and it contains an account of all the coin, that is, the gold, silver, and copper in the bank. Each cashier will enter in his own Money-Book the money he receives and pays in the course of the day. On the left-hand page of the book he will copy from his Paid-Waste-Book the various sums of money he has paid, and on the right-hand page he will copy from his Received-Waste-Book the various sums of money he has received. In each case he will enter against the respective sums the totals in which they are included. Thus, if in paying a cheque of £175 2*s.* 6*d.*, he pay 5-2-6 money, he will enter it thus—"£175 2. 6. £5-2-6." The money is counted up at night, and must agree with the balance of the Money-Book; and this balance is then entered in the Cash-Book.

3. Cash-Book.—In this book is entered every night a specification of all the cash in the bank. The items will consist chiefly of Bank of England notes, parcels of sundries, country notes, cheques on other banks, and the balance of the money. The Bank of England notes are entered by their number, date, and amount. The parcels of Bank of England notes, called sundries, are entered by the word "Sundries," then the name of the parties of whom they were received, and the amounts; country notes by the name of the country bank, and the London agent

[1] The Waste-Books are not usually kept by the cashier but by other clerks. The cashier usually takes the totals of amounts paid and received in a Cashier's Book, and these are checked with the totals of the Waste-Books at the end of the day.

at whose house they are made payable; cheques on other banks by the name of the drawer of the cheque, the name of the banker, and the amount. In this book generally the cash articles are more fully described than in the Received-Waste-Book. In some banking-houses the Cash-Book is called the STOCK-BOOK, and in others the MAKE-UP-BOOK, or EFFECTS-BOOK.

4. DAY-BOOK.[1]—This book is ruled with a double cash column at the right-hand side of each page. The accountant enters in the Day-Book an account of all cash paid and received during the day, placing each transaction under the class of operations or accounts to which it belongs. On the left-hand page of the book he enters the cash which is paid, and on the right-hand side the cash which is received. He commences by writing the day of the week and of the month: then on the left-hand side he writes a heading, "CURRENT ACCOUNTS." Under this head he enters all the cheques paid, copying from the cheques the name of the drawer and the amount, which are placed in the first cash column.[2] The sum of all the cheques is brought forward into the second cash column. The second heading is "DEPOSIT RECEIPTS"; under which head the individual receipts paid are entered, mentioning the number, the name of the depositor, and the sum; and bringing out the total amount, as before, into the second cash column.

The accountant may, if he please, make these headings in the morning, leaving such a space for the transactions under each head as his experience may show him to be necessary. Thus he may keep up his Day-Book throughout the day, and merely have to add it up and balance it when the bank closes. The other headings may be, "Bills Dis-

[1] Sometimes called Cash-Book.

[2] It is usual only to enter the totals of other books in the Day-Book.

counted this day," "Interest paid on Deposit Receipts," "Bank Premises," "Incidental Expenses," "Branch Accounts," &c., &c., answering to the accounts in the General Ledger.

On the right-hand page, or credit side of the Day-Book, the cash received is entered under corresponding headings, as "CURRENT ACCOUNTS," "DEPOSIT RECEIPTS," "BILLS DISCOUNTED PAID THIS DAY," &c., &c. The entries under the heads of Current Accounts, and Deposit Receipts, are copied from the Received-Waste-Books: the entry expresses only the name and the amount.

After all the entries have been made, add up the debit and the credit sides. To the credit side add the amount of the Cash-Book on the preceding evening; to the debit side add the amount of the Cash-Book on the same evening; and, if the totals agree, the "bank is right," that is, the transactions of the day have been correctly entered; but if not, then the bank is wrong, and the error must be discovered by "marking off" the various books.

In large establishments the Day-Book is divided into two books; the debit side forming one book, and the credit side the other book.[1] One is called the "Paid-Day-Book," and the other the "Received-Day-Book." The advantage of this division is, that two persons can be employed at the Day-Book at the same time. In some banks the Day-Book has three cash columns, the third being used for transfer entries. These are entries in which no cash is actually paid or received by the bank, but an amount is transferred from one account to another. In other banks, all the transfers are passed through the Received-Waste-Book. By some London houses the Day-Book is called the Cash-Book, and

[1] Sometimes the Day-Book is divided into two sets according to the days of the week, one for Mondays, Wednesdays, and Fridays, the other for Tuesdays, Thursdays and Saturdays.

its two divisions are called the "RECEIVED-CASH-BOOK," and the "PAID-CASH-BOOK."

5. CURRENT-ACCOUNT-LEDGER.—In this book every customer has a separate account. The sums received to his credit are posted from the credit side of the Day-Book,[1] and the Ledger folio is placed in the Day-Book, in a column ruled for that purpose. The debit side is posted from the cheques themselves, and the Ledger folio placed in the debit side of the Day-Book on the following morning, when the Day-Book is marked against the Ledger. The entry of a cheque in the Ledger includes the date of payment, the name of the party to whom it is payable, and the amount. The entry of a credit includes the date, the word "Cash," and the amount. When the cash is paid into the bank by a third party, it is usual to enter it in the Ledger as "Cash per A. B." When a credit arises from a bill lodged for collection having become due, the name of the accepter is substituted for the word cash.

Some banks follow what is called the *progressive* plan of keeping the Ledger.[2] By this plan the balance is brought out every day, and thus we see the *progress* of the account. In the ordinary way, each page of the ledger is divided into the debit and the credit side, and each side has ruled columns for the date, the transaction, and the amount. But in the progressive Ledger there is only one column for the date of both the credits and the debits—one space for a description of the transaction, whether credit or debit—

[1] It is more usual and much more satisfactory to post the Ledgers direct from the credit slips and the paid cheques or "vouchers." These are also written up each day in a "Check Ledger" (the totals of which must agree with the totals of "Current Accounts" on the credit and debit sides of the Day-Book), and the amounts are called from the Check Ledger to the Ledger.

[2] This plan is now almost universal.

and then three cash columns. The first column is the debit column; the second is the credit column; and the third is the column into which the daily balance is brought out. The advantage of this plan is, that you can see at once what sum a party has on his account, without the delay of adding up the debit and the credit columns. Most banks that allow interest on the balance of the current accounts keep their Ledger on the progressive plan; and, besides the columns I have mentioned, there are, on the right side of the balance column, a space for inserting the number of days the balance may remain stationary, and two interest columns—one for the interest of a credit balance, and the other for the interest of a balance over-drawn. Most banks divide the Current-Account-Ledger into two or more parts, and the names of the depositors are placed in alphabetical order, from the beginning of the first Ledger to the end of the last.

6. Deposit-Receipt-Book.—Deposit Receipts are receipts granted for sums of money that are likely to remain a considerable time, and upon which interest is allowed. These receipts are distinguished from current accounts. Cheques cannot be drawn against any sum lodged as a deposit receipt, and the amount can only be withdrawn, either wholly or in part, after a stipulated notice has been given, usually seven or fourteen days; when the amount, or any part thereof, is withdrawn, the receipt itself must be produced at the bank, and delivered up properly discharged. The Deposit-Receipt-Book is not kept *ledger-wise*; that is, each person has not a separate account opened for him in a distinct part of the book, but the receipts are entered chronologically, according to the date of the lodgment.[1] The entry includes date of lodgment, name of

[1] It is very usual to keep a Deposit Ledger on the same plan as the Current Account Ledger.

depositor, profession, residence, amount, interest paid, principal and interest. The last two particulars are of course not entered until the receipt is cancelled. If a party is desirous of withdrawing only a part of the lodgment, the whole receipt is entered as paid, and a new receipt made out for the sum which remains.

II.—*The Bill Department.*

Bills are divided into two classes—bills deposited,[1] and bills discounted. Bills deposited are bills lodged in the bank for collection, to be placed, when due, to the credit of the depositors. Bills discounted are those for which the money has been advanced, and which are, therefore, the property of the bank. These two classes of bills are entered in separate sets of books; but, as the books are kept in nearly the same manner, I shall describe them together.

1. BILL-REGISTER. } These books are kept, as the
DISCOUNT-REGISTER. } word register seems to imply, chronologically—the bills being entered immediately after each other, in the order in which they come into the bank. The entry includes date when deposited or discounted, name of ingiver, drawer, accepter, date, term, when due, amount, daily amount. The bills are numbered, and the register-number placed upon each bill. The daily amount of the Discount-Register is entered in the debit side of the Day-Book, under the head, "Bills Discounted this day." I advise that the headings of the columns of this and of all the other books, be printed. This saves time and prevents mistakes.

[1] Sometimes called "short bills," *i.e.*, the total is entered "short" in the Pass-Book and not extended in the credit column.

2. Bill-Ledger. } In these books a separate ac-
Discount-Ledger. } count is opened for each party; and the same bills which have previously been entered in the Registers are entered in these Ledgers; but the entry is much shorter. A full description of a bill is given in the Register only, and the register-number is placed as a reference in every book in which the bill may subsequently be entered. The entry in the Bill, or Discount-Ledger, includes date when deposited or discounted, name of accepter, when due, and amount. In some banks the Discount-Ledger is kept upon the progressive plan, which is very useful, as it shows at once to what amount any party may be under discount. In addition to this, some banks place in the Discount-Ledger an account of all bills they may have discounted, to which the party is an accepter. These bills are distinguished from those which have been discounted for the party himself, by being placed on the left-hand side of the page. This account is also kept on the progressive plan. A Discount-Ledger, kept in this way, will have three cash columns ruled on each side of the page: the three on the left hand will be headed, "Where Accepter"; and the three on the right hand will be headed, "Where last Indorser." Between the two sets of columns will be entered—date when discounted—register-number —name of accepter or drawer—when due. The advantage of this plan is, that on turning to any party's account, you see at once the whole of his engagements to the bank, whether arising from bills that have been discounted for himself, or bills to which he is only the accepter.

3. Bill-Journal.[1] } In these Journals the bills
Discount-Journal. } are entered under the respective days on which they fall due. For this purpose the day

[1] Sometimes called Bill Diary.

of the week, and of the month, is placed at the top of each page. This book may be made to last exactly a year, by having headings for every day, from the 1st of January to the 31st of December, omitting Sundays. The entry includes the register-number, name of depositor, or for whom it was discounted, accepter, and amount. The Discount-Journal has three cash columns; one for the amount of each bill, another for the bills paid, and another for those unpaid. The entry is made in the first column, on the day the bill is discounted, and in the other two on the day the bills fall due. The total amount of bills paid each day is copied from the Journal into the received side of the Day-Book. Those unpaid are entered into the transfer column of the Day-Book, and in the Over-Due-Bill-Book. The Bill-Journal need only have one cash column, as most banks find it more convenient to credit their customers' accounts with all the bills on the day they fall due, and debit them on the following day for those that remain unpaid. Those banks, however, that prefer it, may have separate columns in the Bill-Journal for the paid and the unpaid bills; and, in that case, the unpaid bills are returned on the following day to the depositor, without being passed through his cash account. This is sometimes called being "entered short." Some banks make one book serve the purpose of both a Bill-Journal and a Discount-Journal; one page of the book being used as a Discount-Journal, and the opposite page being used as a Bill-Journal.

4. The Lists.—Each banking-house in the City of London divides London into a certain number of districts, according to the extent of its business. Each district is called a Walk, and usually takes its name from the direction in which it lies; as the East Walk, the West Walk, and so on. To each walk is assigned a book, in which is entered every day a *list* of the bills due in the

walk, and hence the book is called a List. Each List takes its name from the walk to which it belongs, as the East List, the West List, &c. The page is divided into four columns, the first and third of which are cash columns. In the first column is entered the amount of the bill, in the second, the name of the accepter and the register-number. This is done the day before the bills are due. After the teller has returned from presenting these bills for payment in his walk, he "answers" each bill; that is, he places against it an account of the cash he has received for it, whether cheques, bank notes, or money. The amount is entered in the third column, and in the fourth the description of each kind of cash. If the bill be not paid, he writes L. D. for "left direction," and then enters the bill in the "Unpaid-List."

In the UNPAID-LIST are entered all the bills not paid when presented for payment. In the course of that day or the following these bills are "answered," either by being paid, or by being passed to the debit of a customer's account, or by being transferred to the Over-Due-Bill-Book. In some banks the Unpaid-List is called the "TAKE-UP-BOOK."

Cheques upon other banks are entered in the Lists in the same way as bills, unless the bank sends a clerk to the Clearing-house, and then they are entered in the "Clearing-out-Book."

From this description it will be seen, that when a sum is received to the credit of a current account, it is entered in the Received-Waste-Book, copied from thence into the Day-Book, and from thence into the Current-Account-Ledger. When a cheque is paid to the debit of a current account it is entered from the cheque itself into the Paid-Waste-Book, the Day-Book, and the Current-Account-Ledger.

When a sum is received for a deposit receipt, the sum is

entered before the receipt is granted in the Deposit-Receipt-Book, and afterwards in the Received-Waste-Book and Day-Book. When a deposit receipt is paid, it must be discharged in the Deposit-Receipt-Book, then entered in the Paid-Waste-Book, and afterwards in the Day-Book.

When a bill is discounted, the discount is calculated by the accountant, who at the same time observes if it is drawn on a proper stamp, and is in every respect a regular and negotiable instrument. If the party for whom it is discounted have a current account, the full amount of the bill is placed to his credit, and he is debited for the interest. If he have no account, he is paid the amount minus the discount, and the entry is made in the Paid-Waste-Book. The bills discounted each day are entered individually in the Discount-Register, and the total amount copied into the Day-Book. The bills are also entered individually in the respective accounts in the Discount-Ledger, and under the days they fall due in the Discount-Journal. When these bills are due, the amount paid each day is entered in the Day-Book in the cash column, and the amount unpaid is transferred to the Over-Due-Bill account, and is entered in the Day-Book in the transfer column.

When a bill is deposited, it is entered in the Bill-Register, the Bill-Ledger, and the Journal. When due, it is placed to the credit of the party by whom it was lodged, and is copied from the Journal into the Day-Book, thence into the Current-Account-Ledger. If unpaid, the account is debited on the following day, and the bill is returned to the depositor.

At the commencement of each day, all the entries made the preceding day in the Day-Book are marked against the respective books by the accountant, or under his superintendence. He also marks the Cash-Book, and checks the adding-up. The Customers' Books are then compared

with the Current-Account-Ledger. The debit side of these books is usually written up the preceding evening from the vouchers by the tellers, or out-door clerks. The accountant writes up the credit side, and sees that both sides agree with the Current-Account-Ledger.

III.—*The Country Department.*

In this department is managed the business of the country banks, and of those customers who live in the country. When the letters are delivered in the morning by the postman, one clerk takes them, and enters in the Waste-Book the *cash* enclosed in the letter to the credit of the respective parties. Another clerk takes the letters and enters the *bills* in the Country-Bill-Register, the Bill-Ledger, and the Bill-Journal. The letters are then handed to a third clerk, who copies off into a book all the *payments*, which are to be made immediately in cash. This book is usually called the Draft-book, as the party receiving the money signs a draft for the amount, which is as good as signing a receipt. If the payment is to be made to a banker, he receives notice in a printed form called a memorandum; but if the payment is ordered to be made to a private individual, he must call for it and claim the exact amount.

A fourth clerk now takes the letters, and enters all the *advices* (that is, bills *advised* to be paid when due) in the Advice-Book and in the Advice-Journal. The corresponding clerk who answers the letters usually manages the stock department. Hence he observes the orders to purchase or sell stock, to procure powers of attorney, and other business of that kind. When writing a reply to the letters received, he notices if all the items in the letters are marked by the proper clerks. If anything is wrong he

is informed of it. Bankers' letters are usually short and plain, comprising only two or three lines.

Those London bankers who act as agents to banks, or to other parties in the country, will have occasion for the following books. The first seven are kept in the same manner as the corresponding books in the Town Department. All the entries in the Country-Ledger, as well as those in the Town-Ledger, must first pass through the Waste and Day-Books. The *credit* side of the Ledger is posted from the Bill-Journal and the Day-Book. The *debit* side is posted from the vouchers themselves, and, like the debit side of the Town-Ledger, will mark against the Paid-Day-Book and the "Clearing-in-Book."

1. A Country-Ledger.
2. Country-Bill-Register.
3. Country-Discount-Register.
4. Country-Bill-Ledger.
5. Country-Discount-Ledger.
6. Country-Bill-Journal.
7. Country-Discount-Journal.

8. Advice-Book.—In this book is entered an account of bills *advised* to be paid on account of the Country Banks. This book is kept ledger-wise, each bank having a separate account.

9. Advice-Journal.—This book is similar to the Bill-Journal, and it contains the *advices* under the heading of the days on which they are to be paid.

10. Credit-Book.—This book contains an account of the credit granted by a country bank in favour of any party. Each party has an account open for him in this book, and the amount of his credit is placed to this account. He is debited for such cheques as he may draw, and the cheques are then passed to the debit of the country bank in the Country-Ledger.

11. Acceptance-Book.—In this book are entered those bills which have been received from the country, and which require the acceptance of the party on whom they are drawn. The entry includes the date when taken out, the name and residence of the drawee, the register-number, and the amount. There are also two vacant columns, in one of which the clerk who takes the bill for acceptance enters his initials when he brings it back; in the second column are entered the initials of another clerk to whom the bills when "brought in from acceptance" are delivered. Though this book is connected with the country department, it is usually kept in the town office.

12. Stock-Book.—London bankers have usually powers of attorney from their correspondents in the country, authorizing them to receive dividends on the Government funds. All these are entered in a book called the Stock-Book. The book is divided into several parts for the different kinds of stock. In each division are entered the powers of attorney held by the bank. The entry includes date of the powers, names of the attorneys, names of the holders of the stock, and the amount. These entries should be made a tolerable distance apart from each other, to leave room to notice any alteration that may take place in the amount of the stock either by sales or new purchases.

Every country bank keeps an account with a London bank. The country banker receives from London a weekly statement of his cash accounts, and a monthly account current. The cash account is a copy of the London banker's ledger. But as the London banker does not consider as cash anything which may not be immediately turned into Bank of England notes, the cash account does not exhibit a statement of the *undue* bills which the country banker may have remitted, nor of the bills which he may have advised to be paid. By means of a monthly

account current he has a full view of all these transactions. On the credit side of the account current is entered the total amount of each remittance, whether it consists of bills or cash. These are followed by entries of "extra" sums of cash that have been lodged to the credit of the country bank by parties resident in London. On the debit side of the account current is placed the total amount of the "advices"; that is, of bills advised to be paid, and also any "extra" payments of "drafts" to persons in London. Then the account is balanced, and we have an easy check by which any error that may have crept into either the cash account or the account current is detected. For if both accounts be correct, the amount of advices not yet due, added to the balance of the account current, will be equal to the amount of bills not due, added to the balance of the cash account.

IV.—*The Note Department.*

Those banks that issue notes will have occasion for:—

A Note-Register, in which the denomination, number, and date of the notes will be entered when prepared for circulation. The total amount of notes, as soon as they are received from the stamp office, or at least as soon as they are signed by the banker or manager, are entered to the credit of "note account," and are afterwards taken down daily as part of the "cash" in the possession of the bank. If the notes on hand be deducted from the balance of the note account, the remainder will show the amount of notes in circulation. Another way is to open an account for "Notes in Circulation," and to credit this account for the notes on hand every morning, and debit it for the notes on hand every night: the balance will show the amount of notes in circulation. There should also be a

book for the "Register of Cancelled Notes," in order to keep an account of those notes which, having become unfit for further use, have been cancelled and destroyed. The notes when cancelled are placed to the debit of the "Note Account."

V.—*The Branch Department.*

In those banks that have branches, the head-office keeps an account with each branch, in the same way as a London banker keeps an account with a country bank. There is usually an additional "Bill-Register" for the bills payable at branches. Each branch has also two Bill-Registers, for bills payable at the head-office, and the bills payable at branches, and frequently another for the bills sent for collection to agents, where the branch does not remit all its bills to the head-office, but direct to agents in other places in order to be collected. Every country banker has also similar Bill-Registers for "Bills payable in London," "Bills payable at Bristol, Manchester," &c., as the case may be; and of course corresponding accounts must be opened in the General-Ledger.

There must also be a book for entering "Branch Notes paid." These notes may either be placed to the debit of the branch on the day they are paid, or they may be carried daily or weekly to the debit of an account to be called "Branch Note Account," and may be placed to the debit of the branch on the day they are sent home.

VI.—*The General-Ledger.*[1]

Into this Ledger, under the various accounts, will be entered the totals of the corresponding headings or accounts

[1] Sometimes called Impersonal Ledger.

specified in the Day-Book. The accounts in this Ledger denote the various classes of operations, and the balances show at all times the exact state of the bank. Every Saturday night the totals and balances of these accounts should be taken off on a balance-sheet. When all the debits are added together, and all the credits are added together, the two sides will agree; that is, they will be of the same amount. These balance-sheets may be printed and bound together in a book, to be called "the General-Balance-Book." I cannot better explain the General-Ledger than by giving the form of the weekly balance-sheet, with the names of those accounts which most banks have occasion to introduce. I have distributed these accounts into five classes:—1. Lodgments. 2. Investments. 3. Expenditure. 4. Cash Account, with Branches; and 5. Proprietors' Accounts. Each bank, however, will open such accounts as are adapted to its transactions. Whatever books the business may render necessary will require to have corresponding accounts. The General-Ledger contains the summaries of all the other books. Thus, the account called "Current-Accounts" contains the summary of the Current-Account-Ledger. The account called "Deposit-Receipts" is a summary of the Deposit-Receipt-Book. The account called "Bills discounted" is a summary of the Discount-Register and the Discount-Journal. In this way every book in the office has a corresponding summary in the General-Ledger. Hence, this book is a check upon all the other books; and by means of these summaries, the partners or directors of a bank can see at once the actual state of their affairs, and can trace the progress or decline of different branches of their business.

Every branch of a Joint-Stock Bank has a "General-Balance-Book," and sends to the head-office every week a balance-sheet of its affairs as they stood on the previous

Saturday night. At the head-office these various balance-sheets are consolidated, and form a general statement of the affairs of the whole bank. This statement comprises the balance of the General-Ledger at the head-office, and that of each branch. These statements are printed and bound together beforehand, so as to form a book—it is called the Statement-Book, and is laid before the directors at their weekly meetings. The balances of the General-Ledger are given in the form on page 47, and those of the Statement-Book in the form at page 56.

It will be observed that the accounts introduced into the balance-sheet on page 47 are such as would be necessary to a London bank that had country agencies and branches, and issued notes. No such bank exists. But I have introduced all these accounts, that each bank may take those which are adapted to its transactions. It will also be observed that I have kept the country business distinct from the town business, so that the comparative extent of each may be immediately perceived. I have introduced cash columns for the AMOUNT as well as the BALANCES; for although the balances are sufficient to show the actual state of the bank, yet the amounts are necessary to show the business that has been done since the previous half-yearly balance.

1. The first class of accounts, under the head of LODGMENTS, are all credit accounts; that is, the balance is on the credit side.

CURRENT ACCOUNTS are those which are usually kept by the London bankers, and are called by the Bank of England "Drawing Accounts." DEPOSIT RECEIPTS are more permanent lodgments, upon which the joint-stock banks allow interest. The account "BILLS DEPOSITED," not being a cash account, might be omitted without deranging the balance of the General-Ledger. If introduced,

THE ———— BANKING COMPANY.

Amounts and Balances of the GENERAL-LEDGER *on* ————

Amounts. Dr.	Balances. Dr.	Titles of Accounts.	Ledger Folio.	Balances. Cr.	Amounts. Cr.
		I. LODGMENTS.			
		London Current Accounts.			
		Country ditto.			
		Deposit Receipts.			
		Bills Deposited (in London).			
		Ditto (from the Country).			
		Notes in Circulation.			
		Credits on Agents.			
		II. INVESTMENTS AND ADVANCES.			
		Bills Discounted (in London).			
		Ditto (from the Country).			
		Over-Due Bills.			
		Government Stock.			
		Other Investments.			
		Loans and Overdrafts to Customers.			
		Loans to Brokers.			
		Interest Account.			
		III. EXPENDITURE.			
		Bank Premises.			
		Rent.			
		Taxes.			
		Salaries.			
		Stationery.			
		Incidental Expenses.			
		Law Expenses.			
		IV. CASH ACCOUNT WITH BRANCHES.			
		Branch A.			
		Branch B.			
		Branch C.			
		Branch D.			
		V. PROPRIETORS' ACCOUNTS.			
		Paid-up Capital.			
		Preliminary Expenses.			
		Dividend Account.			
		Unclaimed Dividends.			
		Surplus Fund.			
		Profit and Loss.			
		Fund for Bad Debts.			
		General Account of Cash.			

its balance must be placed on both sides of the balance-sheet, or the totals will not agree. The General-Ledger is no check upon the accuracy of this account. It should, therefore, be checked periodically, by taking off the daily amounts current from the Journal, and comparing the total with the balance of "Bills Deposited in the General-Ledger."

Some banks distribute their bills deposited into several accounts, as "Bills Deposited by Agents," "Bills Deposited by Branches," "Bills Deposited by Private Parties," &c. &c. On the debit side of the General-Ledger these "bills deposited" are mixed with the bills discounted in different accounts, according to the places where the bills are payable, as "London Bills," "Manchester Bills," "Branch Bills," &c. Those deposited bills that are payable in the place where the bank is established, are usually distinguished from the discounted bills; one account being called "Local Bills Discounted," and the other "Local Bills Deposited."

Notes in Circulation.—When the notes are made payable at any other place beside the place of issue, this account will only show the "apparent circulation," as the notes that have been paid by the agents, or at the other branches of the bank, cannot be brought into the account until they have been returned for reissue. I have classed this account under the head of Lodgments, because it denotes a portion of the debt due from the bank to the public.

Credits on Agents.—When a bank grants a Bill, or Letter of Credit, upon their agents, the money received is placed to the credit of this account. When the bill is due, or the credit paid, it is placed to the debit of this account, and to the credit of the agent's cash account. The business of some banks requires a sub-division of their credits, as "Credits on London Agents," "Credits on Bristol

Agents," &c. Some banks have also an account for "Credits on Branches"; but where all the credits granted are payable on demand, they are usually placed at once to the credit of the cash account of the branch on which they are drawn.

2. Investments and Advances.—The accounts belonging to this class are all debit accounts; that is, the balance (if any) is always on the debit side.

In the foregoing balance-sheet it is presumed that all the bills are payable in London, as the London bankers do not always discount bills payable elsewhere. The division into two accounts is merely to show the comparative extent of the town and the country business. The first account includes the bills discounted for parties resident in London, and the second includes the bills discounted for parties resident in the country. Where the bills are payable at different places, they are referred, as I have already intimated, to different accounts, as "London Bills," "Manchester Bills," &c. It is not usual, in these cases, to distinguish between the bills discounted and the bills deposited, but to place them together on the same account; for instance, the account "London Bills" would include all bills payable in London, whether discounted or deposited. If thought proper, however, they may be easily divided into separate accounts, as "London Bills Discounted," and "London Bills Deposited."

Over-due-Bills.—When a discounted bill is not paid, it is transferred to the debit of this account. "Bills deposited" never pass into this account, but if unpaid, are returned to the parties by whom they were deposited.

When the bank purchases "Government Stock," &c., the purchase money is passed to the debit of an account raised for the purpose. Upon re-sale the account is credited for the money received, and the difference between the

money invested and the money received is passed, at the end of the year, to the debit or the credit of profit and loss account.

Loans.—This account is debited for the amount of any loan granted to a customer, or to any other party, on security. When a customer wants a temporary advance, the usual way, in London banks, is, not to let him overdraw his account, but to place to his credit the sum he may require, and debit the loan account. The interest is charged upon the full amount of the loan. When the loan is repaid, this account is credited.

3. Expenditure.—The accounts under this head require little explanation. "Bank Premises" is debited for the expense of altering, painting, &c., the buildings and offices connected with the bank. The other accounts are debited for the different classes of expenditure as they occur. At the end of the year these accounts are credited, and the several amounts are placed to the debit of profit and loss account.

4. Cash Account with Branches.—The title of this class of accounts is sufficiently explanatory. I will only observe, that in some banks each branch keeps a distinct cash account with every other branch, and with the several agents of the bank with whom it may have transactions. But, in other banks, each branch passes all its transactions through its cash account with the head-office. It debits the head-office for whatever it may remit to either a branch or an agent, and it credits the head-office for whatever sums it may receive from a branch or an agent.

5. Proprietors' Accounts.—This class of accounts refers to the internal operations of the bank.

Paid-up Capital.—If the capital has been paid up at different times, this account may be divided into "First

Instalment," "Second Instalment," "Third Instalment," &c.

Preliminary Expenses.—Several joint-stock banks have passed to an account of this sort the expense of forming the company; and these expenses are discharged out of the profits, by equal portions, in the course of five or ten years. This is considered a more equitable mode than to pay these expenses out of the profits of the first two or three years.

Surplus or Reserve Fund.—When the whole of the annual profits are not divided among the partners or proprietors, the surplus is transferred to an account called "Surplus Fund," where it remains for the purpose of being applied to meet any losses or contingencies that may occur in after years.

Profit and Loss.—To the credit of this account is placed all interest and commission received; and to the debit is placed all interest paid. These entries are made at the time the transactions occur. At the end of the year this account is credited for all the profits that have been made during the year upon Government Stock, &c., and is debited with the several items of expenditure. The Profit and Loss Account may be subdivided into several accounts, as "Interest Received on Bills Discounted," "Commission Received," "Interest Paid on Deposit Receipts," "Charge for Agency," &c., &c. When it is not thus divided, a complete abstract of the account should be made out at the end of the year.

General Account of Cash.—The introduction of this account makes the General-Ledger a perfect check upon the other books. For by this means the total of all the balances of the debit side of the General-Ledger are equal to the total of all the balances of the credit side. To the *debit* of this account is passed, every day, the total amount

of the *credit* side of the Day-Book; and the account is *credited* for the amount of the *debit* side of the Day-Book; consequently the balance of this account will be always on the debit side, and will be equal to the difference between the sum of all the other debit balances, and the sum of the credit balances; that is, it will show the amount of cash in the bank. The General-Ledger is usually kept on the progressive plan, so that the balance of any account can be seen upon inspection, and its progress from any past period can be distinctly and readily traced.

VII.—*Periodical Balances.*

Daily Balance.—It is well known that bankers try their balance at the close of their business every night, with a view of correcting any errors that may have occurred during the day. The process is very easy. If to the amount of the Cash-Book last night, we add the amount of the cash received to-day, and deduct the amount of the cash we have paid, the remainder will be the amount of the Cash-Book to-night. If, on trial, we find this is not the case, there must be some error. Suppose, for instance, the Cash-Book last night amounted to £100,000, and we have received £40,000 and paid £50,000 to-day, then will the Cash-Book to-night amount to £90,000. The trial stands thus:—

Cash-Book last night	£100,000	Paid-Day-Book . .	£50,000
Received-Day-Book .	40,000	Cash-Book to-night .	90,000
	£140,000		£140,000

The daily balance, therefore, is nothing more than the balance of the Day-Book; and the only books employed are the Day-Book and the Cash-Book. But as these books, when finally closed, include the amount of several other

books, the trial is usually made (for the purpose of avoiding alterations) on a half-sheet of paper, called the trial paper, previous to those entries being made.

Weekly Balances.—The daily balance checks the Waste-Books, the Discount-Register, the Journals, the Day-Books, the Lists, and the Money-Books. If any errors occur in any of these books throughout the day the balance will be wrong. But the daily balance does not check the Current-Account-Ledger, though this is the most important book of all. The Ledger is therefore "marked off" every morning against the Day-Book, the Bill-Journal, and the Clearing-in-Book:[1] but this is not a sufficient check. Hence the balances of all the accounts in the Current-Account-Ledger should be taken off weekly in a book called the Current-Account-Balance-Book, and added together, and the amount made to agree with the balance of "current accounts" in the General-Ledger. When the Ledger is kept on the progressive plan, it may be done weekly without much trouble. The "Current-Account-Balance-Book" should be ruled so that the names of the parties having accounts may be placed under one another at the left hand, and all the rest of the left-hand page, and the whole of the right-hand page, divided into double cash columns—one column for the balances of the accounts when in cash, and the other for the balances overdrawn. On this plan it will not be necessary to write the names more than once in seven weeks.

In the same way the balances of the Discount-Ledger should be taken off weekly in the "Discount-Balance-Book." The balances of the General-Ledger are also taken off weekly in the "General-Balance-Book" in the way I have already described.

[1] See note on p. 33.

Half-yearly Balance.—The weekly balancing of the Ledger does not preclude the necessity for a half-yearly balance.[1] The usual days for balancing are the last days of June and December. Some banks, however, balance on the *last Saturday* in June and December, and others on the 30th of June and on Christmas-eve. On the balancing day the following operations are passed through the books:—1. The Current accounts will be debited for any interest or commission that may be due from the party to the bank.—2. The Current-Account-Ledger will be balanced, and the balance will be brought down as the commencement of the transactions of the ensuing half-year.—3. The customers' books must be balanced, and made to agree with the Current-Account-Ledger.—4. The interest due upon the outstanding deposit receipts must be calculated, and the sums added together.—5. The General-Ledger must be balanced, and at the December balance the amount standing to the debit of the several classes of expenditure must be passed to the credit of those accounts, and to the debit of profit and loss account, and the several sums of profit that have been realized upon Government Stock, India bonds, &c., are transferred to the credit of profit and loss account.

For each half-year a book must be provided to be called the Half-Yearly-Balance-Book. This Book will contain the following entries:—

1. A balance-sheet showing the balances of the respective accounts in the General-Ledger in the same way as the weekly balance-sheet.—2. A debtor and creditor balance-sheet, showing the exact condition of the bank.—3. An abstract of the profit and loss account.—4. A list of all the balances of the current accounts.—5. A list of all the out-

[1] Some banks have instituted a quarterly balance.

standing deposit receipts, and the interest due upon each. —6. A list of all discounted bills, *current*, *i.e.*, bills not yet due.—7. A list of all deposited bills current.—8. A list of all other securities, distinguishing those that belong to the bank from those that are lodged by its customers.

The debtor and creditor balance-sheet will contain the same amounts as the balance-sheet of the General-Ledger (see page 47), but differently arranged. They may be disposed according to the form exhibited on the next page.

The abstract of the profit and loss account may be made out in the following form:—

Abstract of Profit and Loss Account, from Jan. 1 *to Dec* 31.

Dr.				*Cr.*		
To Bank Premises .				By Interest on Bills discounted, including rebate brought from previous year		
Furniture . . .						
Rent						
Salaries . . .						
Directors' fees .				By Interest on Loans		
Stationery . .				By Interest and Commission on Current Accounts . . .		
Incidental Expenses . . .						
				By Profit on Investments, &c. . . .		
Total Expenses . .						
Loss on bad Bills, &c.						
Rebate of Discount on Bills not yet due at 5% . . .						
Balance in favour of the Bank . . .						

At the end of the year the final balance of the profit and loss account is transferred to other accounts according to the purposes to which it is to be applied. If intended

Statement of the Affairs of the Bank, on

Dr. THE _____ BANKING COMPANY. *Cr.*

DUE TO THE PUBLIC ON CURRENT ACCOUNTS.				DUE TO THE BANK ON OVERDRAWN ACCOUNTS.			
Head Office, Town .				Head Office, Town . .			
Ditto, Country. .				Ditto, Country . . .			
Branch A				Branch A			
Branch B				Branch B			
Branch C				Branch C			
Total Current Accounts. . . .				Total Overdrawn Accounts			
DEPOSIT RECEIPTS.				BILLS DISCOUNTED.			
Head Office . . .				Head Office, Town . .			
Branch A				Ditto, Country . . .			
Branch B				Branch A			
Branch C				Branch B			
Total Deposit Receipts				Branch C			
Notes in Circulation				Total Amount of Bills Discounted . . .			
Credits on Agents .				LOANS.			
Total Lodgments .				Head Office			
INTEREST ACCOUNT.				Branch A			
Head Office . . .				Branch B			
Branch A				Branch C			
Branch B				Total Amount of Loans.			
Branch C				INVESTMENTS.			
Total Amount of Interest . . .				Government Stock . .			
FUND FOR BAD DEBTS.				Other Investments . .			
Head Office . . .				Total Investments . .			
Branch A				Total available Assets .			
Branch B				OVER-DUE-BILLS.			
Branch C				Head Office			
Total Amount of Fund for Bad Debts				Branch A			
PAID-UP CAPITAL .				Branch B			
SUNDRY ACCOUNTS.				Branch C			
Forfeited Shares .				Total Amount of Over-Due-Bills			
Dividends				SUNDRY ACCOUNTS.			
Unclaimed ditto . .				Stamp Account . . .			
Surplus Fund . . .				PremisesAccount . . .			
Profit and Loss . .				Ditto Branch A . . .			
Total Sundry Accounts. . . .				Ditto Branch B . . .			
Total. . . .				Ditto Branch C . . .			
				Total			
				GENERAL ACCOUNT OF CASH.			
				At Bank of England . .			
				At call and short notice			
				Head Office			
				Branch A			
				Branch B			
				Branch C			
				Total Amount of Cash .			
N.B. Contingent liability:				Total			
Acceptances on behalf of customers.							
Endorsements . .							

to be held as a "surplus fund," it is transferred to that account. If intended to be divided among the proprietors, it is transferred to a "dividend account," which is raised for that purpose. If the balance of the profit and loss account should be against the bank, then it must remain "on the wrong side," until further profits shall turn the balance the other way.

Besides the books connected with the business of banking, every joint-stock bank will require,

1. A Shareholders' Register.—In this book the names of the shareholders are entered chronologically in the order in which they become shareholders. The entry includes the date, the name, residence, number of shares, and sum paid.

2. Transfer-Register.—In this book are entered the transfer of shares from one proprietor to another. The entry includes date of transfer, from whom transferred, residence, ledger-folio, to whom transferred, residence, purchase-money, transfer stamp.

3. Proprietors'-Ledger.—In this ledger each proprietor has an account open, in the same way as in a cash-ledger. He is credited for the number of shares, and an entry is made of the different instalments he may pay. When he sells or transfers his shares, he is debited the shares, and they are placed to the credit of the party who may have purchased them. The entry includes the date, number of register, calls and transfers, number of shares, and amount.

III. We shall now consider those Improvements of which the above system is capable, so as to render it more efficient in large establishments.

As a bank increases its business, it becomes of importance to improve its system of book-keeping, and to adopt means

of increasing the efficiency of its clerks. A large establishment can generally be conducted with a less *proportionate* number of hands than a small one. It admits of a more extensive application of the principle of a division of labour. In a small bank, one clerk may keep two or three books of various kinds, or perhaps act as both cashier and accountant. But in a large bank, each clerk is in general kept wholly to one employment. The effects of this separation of occupations are the same in banks as in manufactories; and the description of these effects given by Adam Smith will equally apply to both cases.

"The great increase in the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances: first, to the increase of dexterity in every particular workman; secondly, to the saving of time which is commonly lost in passing from one species of work to another; and, lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many."

The increase of dexterity by constant practice is very observable in the practice of "casting up." A clerk who is much accustomed to this operation will cast up a long column of figures with singular quickness and accuracy. It is also very observable in "calling over." Besides, owing to the abbreviations we have mentioned in page 23, a clerk in calling over will speak so rapidly that an unpractised ear will hardly be able to follow him. Mr. Babbage gives the following instance of great dexterity acquired by practice:—

"Upon an occasion when a large amount of bank notes was required, a clerk in the Bank of England signed his name, consisting of seven letters, including the initial of his christian name, five thousand three hundred times

during eleven working hours, and he also arranged the notes he had signed in parcels of fifty each." [1]

The loss of time in passing from one operation to another is as obvious in mental processes as in those which are purely mechanical.

"When the human hand or the human head has been for some time occupied in any kind of work, it cannot instantly change its employment with full effect. The muscles of the limbs employed have acquired a flexibility during their exertion, and those to be put into action a stiffness during rest, which renders every change slow and unequal in the commencement. A similar result seems to take place in any change of mental exertion; the attention bestowed on the new subject is not so perfect at the first commencement as it becomes after some exercise." [2]

The invention of expedients for facilitating and abridging labour is also as common in a bank as in a manufactory.

Mr. Francis has recorded, in his "History of the Bank of England," a variety of improvements introduced into that establishment by Mr. William Rae Smee, son of a former chief accountant.

He proposed an alteration in the cheque office, by which he stated that the work which employed three principals and twenty-one clerks would be done more effectually by two principals and seven clerks. In the circulation department, the posting, which previously took fifty, occupied only eight clerks; whereas the whole of that department, conducted upon the old system, would probably have required before now a hundred additional assistants. In the National Debt Office Mr. Smee introduced such mea-

[1] "The Economy of Machinery and Manufactures." By Charles Babbage.

[2] *Ibid.*

sures that "the directors were enabled so far to consult the accommodation of the public as to enable the transfers in the various offices to be made eight or nine days later than usual, the business which formerly occupied about thirty-two days being accomplished in about twenty-three.[1]

Similar improvements have been introduced into commercial book-keeping.

"The old method of journalizing and posting each transaction separately unnecessarily swells the accounts in the ledger with a multiplicity of figures, which greatly increases the difficulty of balancing, and, to say nothing of extra labour and loss of time, the liability to error is always in proportion to the number of entries, and *vice versâ*. If a hundred sums are posted when one would answer, then a hundred chances of error are incurred where only one was necessary; and in the event of an error in adjusting the accounts, a hundred entries must be called over and examined instead of one."[2]

The expedients introduced to improve any system of book-keeping have for their object either the saving of time *directly* by abbreviating the entries, or to save time *indirectly* by new modes of preventing or detecting errors. And it may be observed, that a minute alteration, hardly worthy of being adopted in a small bank, where it would save but a few minutes a day, may be very properly adopted in a large establishment, where the time saved would be in proportion to the greater extent of business. Sometimes an entry may be shortened by omitting some of the particulars. Thus, where we have been accustomed to enter with every bill—the name of the last indorser—the

[1] "History of the Bank of England: its Times and Traditions." By John Francis. Vol. ii, p. 141.

[2] "Double Entry Elucidated." By B. F. Foster. P. 18.

drawer and his residence—the accepter and his residence —the date, term when due, and the amount—we may properly, perhaps, omit some of these items. Or where we have repeated the same entry in several books, we may enter it in fewer books—or, perhaps, make the individual entries in only one book, and enter the total amount in the others—or, at other times, the whole form of a book may be changed, and we may by a new arrangement obtain the same results more clearly and in less time. Almost every bank will occasionally make some alteration of this kind as its business may require. And even each accountant has usually some little expedients of his own for facilitating his daily operations. We will notice a few of those amendments that have been adopted with the view of saving time and labour in some of our banking establishments.

Some large banks have adopted the "horizontal system of book-keeping," which is in some respects an improvement on the system described in the former editions of this work. The chief difference is in the mode of ruling the Received and the Paid-Waste-Books.

The Received-Waste-Book, instead of being ruled as described on page 28, has *four* cash columns, three at the left hand as you face the book, and the fourth at the right hand, with a space between the third and the fourth. The different items of a credit entry, instead of being placed under one another, as in the former system, will be placed separately in the first three columns, and the total in the fourth column. Thus, if a sum of £543 10*s*. 7*d*. be received from Mr. Smith, and this sum consists of £3 10*s*. 7*d*. in coin or money, £100 in a Bank of England note, and £440 in a cheque on Jones, Loyd & Co., the entry will stand thus:

Money.			Bank Notes.	Sundries.			Name.	Total.		
£	*s.*	*d.*	£	£	*s.*	*d.*	Smith.	£	*s.*	*d.*
3	10	7	100	440	0	0	Jones, Loyd & Co.	543	10	7

Thus it is seen that the first column is for money, the second column for bank notes, and the third column for "sundries"; that is, for all other articles; and these three columns are added together "horizontally," and the total brought out into the fourth cash column at the right hand. It will be observed, that the cashier has to add the items together, not longways, but crossways—not longitudinally, but "horizontally." After a little practice one way is just as easy as the other.

Some cashiers prefer having two columns only at the left hand, and two at the right hand, with the space between the second and third column, as the numbers of the bank notes, and the names of the bankers on whom the cheques are drawn, can then be placed on the same line, but this is not a matter of much consequence.

Now, if you "cast-up" the first left-hand column, you will have at the close of the day the total amount of money, *i.e.*, coin, received during the day. If you cast up the second column, you will have the total amount of bank notes. The third column will give the total amount of "sundries." And the amount of these three columns together will be equal to the fourth column, containing the total amount of the credits. If this should not be the case, there must be some error, which must be discovered forthwith. Thus the Horizontal-Received-Waste-Book is a check upon itself. As soon as the cashier gets to the bottom of a page he casts up his book, and sees that the three columns

are exactly equal to the fourth. Thus he keeps his book right as he goes on. Whereas, in the former system, any error in the Received-Waste-Book would not be discovered till the General Balance was tried at the close of business, and not then, perhaps, until after a long course of "marking off."

To simplify my explanation, I have described the Received-Waste-Book as having only four cash columns, and these are perhaps enough for a small bank. But large establishments have sometimes seven or eight, perchance in the following order:—1. Money, *i.e.*, coin. 2. Bank notes. 3. Parcels of bank notes, called sundries. 4. Country notes. 5. Cheques on clearing bankers. 6. Cheques on bankers who do not clear. 7. Cheques on our own bank. ——— a space. 8. The total amount of the credit.

The Horizontal-Paid-Waste-Book is ruled with three cash columns. One to the left for the amount of the cheque paid; then an open space for the name; then a column for the bank notes, and another for the money, *i.e.*, coin. The London bankers do not pay away any bills or country notes in exchange for cheques, but only Bank of England notes and coin. The entry stands thus:

Amount of Cheque.			Name and No. of Bank Note.		Bank Notes.	Money.		
£	*s.*	*d.*			£	£	*s.*	*d.*
101	4	3	White.	1473.	100	1	4	3

The amount of the columns containing the bank notes and the money will of course be equal to the column containing the amount of the cheques. And thus this Paid-Waste-Book contains a check upon itself.

The Horizontal-Paid-Waste-Book may have at the left hand two cash columns, one for the town and the other for the country departments, and also a separate column for the country notes; thus:

Town.		Country.		Country Notes.	Name.	Bank Notes Paid.	Money.		

This prevents the necessity for having both a Town and a Country Paid-Waste-Book, while the two departments are still kept distinct. The country notes are also separated, and can be checked by themselves. When all are added together, the total of the three columns at the left must be equal in amount to the total of the two columns at the right hand. The articles paid must be equal to the bank notes and money which were issued in payment.

We shall now point out some of the advantages of the horizontal system of keeping the Waste-Books.

First. As all the receipts and payments of money, *i.e.*, coin, are entered individually in the Received and Paid-Waste-Books, and the amounts added together, it will not be necessary that these sums be copied individually into the Money-Book. The total amount only of each column is entered in the Money-Book at the close of the day's business, and the Money-Book is balanced. Thus, all the time employed in making the entries individually in the Money-Book is saved.

Secondly. As all the credits to current accounts are added together in the Received-Waste-Book, it is not neces-

sary they should be entered individually in the Day-Book. They can be individually posted direct into the Ledger, and the total only be entered in the Day-Book. The same remark will apply to the Paid-Waste-Book. This is another saving of time and labour.

Thirdly. Every Waste-Book, as we have already intimated, is a check upon itself. We have spoken of a Received-Waste-Book, and a Paid-Waste-Book, as though a bank had but one—and in small banks this is the case. But in large banks, there are seven or eight cashiers or more, each having a Received-Waste-Book and a Paid-Waste-Book for the town department, and another Received-Waste-Book and Paid-Waste-Book for the country department, with a Supplementary-Received-Waste-Book, and a Supplementary-Paid-Waste-Book, and a Money-Book besides. Now, it is a great advantage to have the means of keeping all these books free from errors during the day, and to know at night that they are all correct. If the "Balance" be wrong, the field of inquiry is thus very much limited, and the time that would otherwise be employed in checking the Waste-Books is devoted to the examination of the other books of the bank.

Fourthly. This plan gives the means of checking separately those items that have a column appropriated to them. Take, for example, the column of bank notes. If we add to the amount of bank notes on hand last night the amount received to-day, and deduct the amount paid away, the remainder should be the amount on hand to-night. When this is the case the bank notes are right. In the same way we may check the money columns, the clearing columns, &c. Thus, when the trial balance is wrong, we can check these items separately, and thus more readily discover the error. Without this expedient we should have to "mark off" the whole business of the day.

It will be observed that the above Waste-Books refer only to receipts and payments on current accounts. All other receipts and payments are entered in a Supplementary-Receipt-Book and a Supplementary-Paid-Book. These books are ruled in the same way as the other Waste-Books, and they embody entries in connection with deposit receipts, received or paid, credits or debits to interest accounts, debits to salaries, taxes, incidental accounts, &c., &c. All these items are then entered in the Day-Book, from whence they are posted into the General-Ledger. A book is also provided, usually called a Transfer-Book, in which are entered all the cheques on the bank paid in by other customers, as these merely cause a *transfer* of the amount from one customer to another.

Books which are designed chiefly as registries or summaries should be kept on the horizontal system. Thus, a London bank which keeps an account with the Bank of England, will have to lodge to its credit notes, gold, silver, post-bills, cheques, dividend warrants, &c.

To keep a registry of this, a book may be opened horizontally—the first column at the left hand being the date; then the articles entered over separate columns, at the top of the page; afterwards a column for the total amount of all these items—then a credit column for the cheques drawn each day—and then the daily balance. If this book be made of such a size as to contain about thirty lines, then each page will contain the transactions of a month. And, by adding up the columns, the figures at the bottom of the page will show the separate amounts of notes, gold, silver, &c., paid into the Bank of England in the course of a month. By comparing the different pages, it will be seen on what months the largest or the smallest sums are paid into the bank.

In constructing Tables it is also best to follow the hori-

zontal system. Thus, to keep a record of the weekly returns of the Bank of England, it is best to arrange the items into columns, with the heading at the top of each column—the first column containing the dates of the several returns. It will then be easy to trace the fluctuations in any one item; such, for instance, as the "Public Deposits," "the Private Deposits," "the Rest," &c., &c. Some of the Returns published in the Appendix to the Parliamentary Evidence of 1847 have been arranged on this principle.

We will now notice some further improvements that have sometimes been adopted by large banks in their system of book-keeping. The great object of all these improvements is, as we have already mentioned, either to save time directly, in making the entries, or indirectly, by preventing or discovering errors. These are—

1. The abolition of the Discount-Register. Here the bills are entered at once in the Discount-Ledger, under the names of the respective parties for whom they are discounted; and the total amount of bills discounted each day is entered in the Day-Book from the Interest-Book, which contains the calculations of discount. The only objection to this plan is, that the space in the Discount-Ledger does not admit of so full a description of the bill as is usually given in the Discount-Register. The Bill-Register is also abolished in the same way.

2. The adoption of a Check-Ledger facilitates the discovery of errors, and thus diminishes the time employed in searching for them. Though this book is called a Check-Ledger, it is not kept ledger-wise. It is ruled with a cash column on each side of the page. In the column opposite your left hand you enter, from the cheques themselves, all the cheques paid during the day. In the right-hand column you enter, from the Received-Waste-Books,

all the credits of the day. When you add up these two columns, they will of course agree with the amounts of the Paid-Waste-Book and the Received-Waste-Book. Thus the accuracy of the Check-Ledger is insured. Now, where the balances of the Current-Account-Ledger are checked every week, you employ the Check-Ledger to test their accuracy in this way. If to the amount of the balances of the Current-Account-Ledger last week, you add the total credits entered in the Check-Ledger during the week, and deduct the total debits entered in the Check-Ledger during the week, the remainder will show the total amount of the balances of the Current-Account-Ledger for the present week. Each Current-Account-Ledger will have a Check-Ledger, and thus each Ledger will be checked separately, so that when the total balance is wrong, it will at once be seen in which Ledger the error has occurred.

Time is sometimes lost by a clerk taking up the wrong book—opening it, putting it down, and then taking up the right one. A cashier, for instance, will sometimes take up the Paid-Waste-Book instead of the Received-Waste-Book. To prevent this, the two books may have covers of different colours—one white, the other green. Time may be lost by two clerks wanting the same book at the same time. The ledger-keeper may want to post from the Received-Waste-Book when the cashier is using it. To prevent this, there may be two sets of Waste-Books—one for Mondays, Wednesdays, and Fridays, and the other for Tuesdays, Thursdays, and Saturdays; and, to prevent mistakes, the names of the days should be written in large letters on the covers of the books.

IV. We will now make a comparison between the system of Book-keeping practised by Merchants and that practised by Bankers.

The merchants have their Waste-Book, Journal, Ledger. The bankers have their Waste-Book, Day-Book, Ledger.

In both cases the Waste-Book is the book in which transactions are first entered. But this book is capable of subdivision: it contains a record of various transactions, some of which may be entered in separate books. Bankers have their Received, Paid, and Supplementary Waste-Books; also their Deposit-Receipt-Book, Discount-Registers, and other books subsidiary to the Waste-Book. So merchants have their Waste-Books subdivided into various books, according to the nature of the transactions. There is the Invoice-Book, containing an account of all goods purchased; the Sales-Book, containing an account of all goods sold; a book for "Bills Receivable," containing a list of all bills in the merchant's hands, which when due he will *receive*; another for bills payable, containing a list of all bills he has accepted, and which when due he will have to pay; a Cash-Book, containing an account of all cash he receives or pays away; and several others, varying according to the character and extent of the business. Now all these subdivisions of the merchant's Waste-Book resemble those of the banker's in two things:—first, they are all kept *chronologically*—they contain a record of the transactions in the order of time in which they occurred; and, secondly, all the transactions thus recorded must afterwards, upon the system of double entry, pass, either individually or in totals, through the book which merchants call a Journal, and bankers call a Day-Book.

The words "Journal" and "Day-Book" have the same meaning, and in this instance the use of the two books is similar. But in the merchant's Journal individual transactions may be entered, while in the banker's Day-Book they are always entered in totals. Thus the total amount of "Bills Discounted," and the total amount of credits

and payments on current accounts, are entered in the Day-Book, but not the individual items. Another difference is, that over each entry in the merchant's Journal you state to what account it is to be posted; for every entry is posted to two accounts—to the debit of one account, and to the credit of the other. And this is denoted by Dr. being placed before the name of the account to be debited. Thus, if a merchant buys some goods for ready money, the journal entry is preceded by—

Goods Dr. to Cash;

implying that the account "Goods" is to be debited, and the account "Cash" to be credited. On the other hand, if he sells goods for ready money, the transaction will be journalized thus:—

Cash Dr. to Goods.

If he sells goods upon credit to John Brown, it will be—

John Brown Dr. to Goods.

If he sells goods for a bill of exchange, it will be—

Bills receivable Dr. to Goods.

If he sends goods abroad, as a speculation, in the ship *Adventure,* he may raise an account for the ship, and say—

Ship Adventure Dr. to Goods.

The entries in the banker's Day-Book are made daily, but the entries in the merchant's Journal are generally made once a month.

The Ledger.—We have stated that in the merchant's Ledger every entry is made twice—one account being debited, and another credited—and these two accounts are indicated in the Journal. This is what is called book-keeping by double entry. If it be asked, whether bankers

keep their books by double entry?—the answer is, that those bankers who have no General-Ledger (and this is the case with not a few of the private bankers) do not keep their books by double entry. The Current-Account-Ledger is not kept by double entry. It contains none but personal accounts, and its accuracy is tested only by the periodical balancings. The banker's Ledger, which corresponds in this respect with the merchant's Ledger, is not the Current-Account-Ledger, but the General-Ledger. This is kept by double entry. In a ledger kept by double entry, the sum of all the debit balances will be equal to the sum of all the credit balances; and the sum of all the debit amounts will be equal to the sum of all the credit amounts. When this is not the case there is an error in some of the accounts. This is the case with the banker's General-Ledger. But, as the transactions are not posted individually, but only in totals, the double entry does not appear on the face of the accounts. Thus, if a bill be discounted for a customer, and the amount placed to the credit of his current account, the Journal entry, on the principle of mercantile book-keeping, would stand thus:—

Bills discounted Dr. to Current Accounts.

But the bill discounted is placed to the debit of the account of "Bills Discounted," in a total of all the bills discounted on that day. And the amount is placed to the credit of Current Accounts, in the total of all the sums received to the credit of Current Accounts on that day. Thus, the "double entry," though equally real, is not so apparent as though the transactions were posted individually.

So, again, if a country banker should discount a bill, and the customer ask for a draft on his agent in London, the Journal entry, on the commercial system, would stand thus:—

Bills Discounted Dr. to Drafts on London.

It would go to the debit of "Bills Discounted," in the total of all the bills discounted that day, and it would go to the credit of "Drafts on London," in the total of all the drafts on London issued on that day.

The accounts in a merchant's Ledger are usually classified into Personal Accounts, Real Accounts, and Profit and Loss Accounts. The Personal Accounts are the accounts of persons who may owe the merchant money, or to whom he may owe money. The Real Accounts are accounts denoting property, such as cash, bills receivable, bills payable, merchandise, ship adventure, &c. The Profit and Loss accounts are rent, commissions, expenses, and all other accounts which are ultimately transferred to the debit or the credit of the Profit and Loss Account.

The banker's General-Ledger has no Personal Accounts, as these are all kept in the Current-Account-Ledger. The usual accounts are those I have enumerated in page 45, and are all either Real Accounts or Profit and Loss Accounts.

It would be possible (but not desirable) to introduce all the Personal Accounts into the banker's General-Ledger, and thus to form the Current-Account-Ledger and the General-Ledger into one, and keep the whole by double entry. In this case we should omit the totals of Current Accounts, now introduced into the General-Ledger, and insert every transaction individually. If John Brown drew a cheque on the bank, the Journal entry would stand thus:—

John Brown Dr. to Cash.

And if he paid in money to his credit, the Journal entry would stand thus:—

Cash Dr. to John Brown.

All the entries passed to the Dr. and Cr. of these Personal Accounts would of course pass to the Cr. and Dr. of Cash. Indeed, all the entries to the Dr. and Cr. of Cash would be the same as are now made in the Check-Ledger, except that the debtor column would be called creditor, and the creditor column would be called debtor. By the use of such a Check-Ledger as we have described on page 67 (for there are various kinds of Check-Ledgers), the Current Accounts are virtually kept by double entry; and we have the additional advantage that, when there is more than one Ledger, we are enabled to check each Ledger separately.

To accountants in banks where a General-Ledger is not kept, it appears strange that "Cash" should be *credited* for money which is *paid away* and *debited* for money which is received. But this strangeness will vanish, if for the word "Cash" they fix in their minds the word "Cashier." If they had an account with a cashier, they would of course *debit* him, as they do their banker, for all moneys they paid into his hands, and credit him for all moneys they drew out. And the difference between the amounts of these debits and credits would be the balance either in their favour or against them.

In thus comparing the commercial and the banking systems of book-keeping, I have hitherto supposed that all merchants keep their books by double entry. But this is not always the case with the smaller houses. And then their system more nearly resembles the system of those bankers who do not keep a General-Ledger.

"In keeping books by single entry, the *Daily-Books* are kept in the same manner as in double entry, with the exception of a column of reference to the Ledger in each book, which takes the place of a column of reference in the Journal—this book being dispensed with. The entries are

posted directly from the Daily-Books into the Ledger. In the Ledger, by single entry, strictly speaking, there ought to be only one kind of accounts; namely, Personal Accounts, including all persons to whom a merchant becomes indebted, and all persons who become indebted to him."[1]

It will be seen from this account, that, in mercantile book-keeping by single entry, the merchant's Ledger resembles the Current Account-Ledger of the banker. In single entry the merchant dispenses altogether with his Journal; but the banker usually retains his Day-Book, even when he does not keep a General-Ledger. But, in this case, the Day-Book contains only the debits and credits, individually, of the Current Accounts, which are posted afterwards into the Current-Account-Ledger. In the horizontal system, as we have stated, the debits and credits of the current accounts are not entered individually in the Day-Book, but the total amounts are taken from the Paid and Received-Waste-Books.

[1] "Wallace's Pocket Guide to Commercial Book-Keeping."

SECTION XXVI.

THE BANK OF ENGLAND.

THE history, constitution, and administration of the Bank of England up to the year 1828 have been traced in an early chapter of the present edition, and, later on, are continued to several years after the passing of the all-important Bank Charter Act of 1844 (7 & 8 Vict., c. 32), the provisions of which are as follows:

An Act to regulate the Issue of Bank Notes, and for giving to the Governor and Company of the Bank of England certain Privileges for a limited Period.

[19th July, 1844.]

Bank to establish a separate department for the issue of Notes.

WHEREAS it is expedient to regulate the issue of bills or notes payable on demand: and whereas an act was passed in the 4th year of the reign of his late Majesty King William the Fourth, intituled "An Act for giving to the corporation of the Governor and Company of the Bank of England certain privileges for a limited period, under certain conditions"; and it is expedient that the privileges of exclusive banking therein mentioned should be continued to the said Governor and Company of the Bank of England, with such alterations as are herein contained, upon

certain conditions: may it therefore please your Majesty that it may be enacted; and be it enacted, &c., that from and after the 31st day of August, 1844, the issue of promissory notes of the Governor and Company of the Bank of England, payable on demand, shall be separated and thenceforth kept wholly distinct from the general banking business of the said governor and company; and the business of and relating to such issue shall be thenceforth conducted and carried on by the said governor and company in a separate department to be called "The Issue Department of the Bank of England," subject to the rules and regulations hereinafter contained; and it shall be lawful for the court of directors of the said governor and company, if they shall think fit, to appoint a committee or committees of directors for the conduct and management of such issue department of the Bank of England, and from time to time to remove the members and define, alter, and regulate the constitution and powers of such committee, as they shall think fit, subject to any bye-laws, rules or regulations which may be made for that purpose: provided nevertheless, that the said issue department shall always be kept separate and distinct from the banking department of the said governor and company.

Management of the issue by Bank of England.

2. That upon the 31st day of August, 1844, there shall be transferred, appropriated, and set apart by the said governor and company to the issue department of the Bank of England securities to the value of fourteen million pounds, whereof the debt due by the public to the said governor and company shall be and be deemed a part; and there shall also at the same time be transferred, appropriated, and set apart by the said governor and company

to the said issue department so much of the gold coin and gold and silver bullion then held by the Bank of England as shall not be required by the banking department thereof; and thereupon there shall be delivered out of the said issue department into the said banking department of the Bank of England such an amount of Bank of England notes as, together with the Bank of England notes then in circulation, shall be equal to the aggregate amount of the securities, coin, and bullion so transferred to the said issue department of the Bank of England; and the whole amount of Bank of England notes then in circulation, including those delivered to the banking department of the Bank of England as aforesaid, shall be deemed to be issued on the credit of such securities, coin, and bullion so appropriated and set apart to the said issue department; and from thenceforth it shall not be lawful for the said governor and company to increase the amount of securities for the time being in the said issue department, save as hereinafter is mentioned, but it shall be lawful for the said governor and company to diminish the amount of such securities, and again to increase the same to any sum not exceeding in the whole the sum of fourteen million pounds, and so from time to time as they shall see occasion; and from and after such transfer and appropriation to the said issue department as aforesaid it shall not be lawful for the said governor and company to issue Bank of England notes, either into the banking department of the Bank of England, or to any persons or person whatsoever, save in exchange for other Bank of England notes, or for gold coin or for gold or silver bullion received or purchased for the said issue department under the provisions of this act, or in exchange for securities acquired and taken in the said issue department under the provisions herein contained: provided always that it shall be lawful for the said governor

and company in their banking department to issue all such Bank of England notes as they shall at any time receive from the said issue department or otherwise, in the same manner in all respects as such issue would be lawful to any other person or persons.

Proportion of silver bullion to be retained in the issue department.

3. And whereas it is necessary to limit the amount of silver bullion on which it shall be lawful for the issue department of the Bank of England to issue Bank of England notes; be it therefore enacted, that it shall not be lawful for the Bank of England to retain in the issue department of the said bank at any one time an amount of silver bullion exceeding one fourth part of the gold coin and bullion at such time held by the Bank of England in the issue department.

All persons may demand of the issue department notes for gold bullion.

4. That from and after the 31st day of August, 1844, all persons shall be entitled to demand from the issue department of the Bank of England Bank of England notes in exchange for gold bullion at the rate of £3 17*s.* 9*d.* per ounce of standard gold: provided always that the said governor and company shall in all cases be entitled to require such gold bullion to be melted and assayed by persons approved by the said governor and company at the expense of the parties tendering such gold bullion.

Power to increase securities in the issue department, and issue additional notes.

5. Provided always, that if any banker who on the 6th day of May, 1844, was issuing his own bank notes shall cease to issue his own bank notes, it shall be lawful for her Majesty in council at any time after the cessation of such issue, upon the application of the said governor and company, to authorize and empower the said governor and company, to increase the amount of securities in the said issue department beyond the total sum or value of fourteen million pounds, and thereupon to issue additional Bank of England notes to an amount not exceeding such increased amount of securities specified in such order in council, and so from time to time: provided always, that such increased amount of securities specified in such order in council, shall in no case exceed the proportion of two-thirds the amount of bank notes which the banker so ceasing to issue may have been authorized to issue under the provisions of this act; and every such order in council shall be published in the next succeeding London Gazette.

Account to be rendered by the Bank of England.

6. That an account of the amount of Bank of England notes issued by the issue department of the Bank of England and of gold coin and of gold and silver bullion respectively, and of securities in the said issue department, and also an account of the capital stock, and the deposits, and of the money and securities belonging to the said governor and company in the banking department of the Bank of England, on some day in every week to be fixed by the commissioners of stamps and taxes, shall be transmitted by the said governor and company weekly to the

said commissioners in the form prescribed in the schedule hereto annexed marked (A.)[1] and shall be published by the said commissioners in the next succeeding London Gazette in which the same may be conveniently inserted.

[1] The following is the schedule referred to:—

SCHEDULE (A.)

BANK OF ENGLAND.

An Account pursuant to the act 7 & 8 Vict. cap. for the week ending on the day of .

Issue Department.

	£		£
Notes issued		Government debt . . .	
		Other securities . . .	
		Gold coin and bullion .	
		Silver bullion	
	£		£

Dated the day of 18 . ——— cashier.

Banking Department.

	£		£
Proprietors' capital . .		Government securities (including dead weight annuity)	
Rest		Other securities . . .	
Public deposits (to include exchequer, savings banks, commissioners of national debt and dividend accounts		Notes	
		Gold and silver coin . .	
Other deposits			
Seven-day and other bills			
	£		£

Dated the day of 18 . ——— cashier.

Bank of England exempted from stamp duty upon their notes.

7. That from and after the said 31st day of August, 1844, the said Governor and Company of the Bank of England shall be released and discharged from the payment of any stamp duty, or composition in respect of stamp duty, upon or in respect of their promissory notes payable to bearer on demand; and all such notes shall thenceforth be and continue free and wholly exempt from all liability to any stamp duty whatsoever.

Bank to allow £180,000 *per annum.*

8. That from and after the said 31st of August, 1844, the payment or deduction of the annual sum of £120,000 made by the said governor and company, under the provisions of the said act passed in the fourth year of the reign of his late Majesty King William the Fourth, out of the sums payable to them for the charges of management of the public unredeemed debt, shall cease, and in lieu thereof the said governor and company, in consideration of the privileges of exclusive banking, and the exemption from stamp duties, given to them by this act, shall, during the continuance of such privileges and such exemption respectively, but no longer, deduct and allow to the public, from the sums now payable by law to the said governor and company for the charges of management of the public unredeemed debt, the annual sum of £180,000, anything in any act or acts of parliament, or in any agreement, to the contrary notwithstanding: provided always, that such deduction shall in no respect prejudice or affect the rights of the said governor and company to be paid for the management of the public debt at the rate and according

to the terms provided in an act passed in the 48th year of the reign of his late Majesty King George the Third, intituled "An Act to authorize the advancing for the public service, upon certain conditions, a proportion of the balance remaining in the Bank of England, for the payment of unclaimed dividends, annuities and lottery prizes, and for regulating the allowances to be made for the management of the national debt." [1]

Bank to allow the public the profits of increased circulation.

9. That in case, under the provisions hereinbefore contained, the securities held in the said issue department of the Bank of England shall at any time be increased beyond the total amount of fourteen million pounds, then and in each and every year in which the same shall happen, and so long as such increase shall continue, the said governor and company shall, in addition to the said annual sum of £180,000, make a further payment or allowance to the public, equal in amount to the net profit derived in the said issue department during the current year from such additional securities, after deducting the amount of the expenses occasioned by the additional issue during the same period, which expenses shall include the amount of any and every composition or payment to be made by the said governor and company to any banker in consideration of the discontinuance at any time hereafter of the issue of bank notes by such banker; *and such further payment or allowance to the public by the said governor and company shall, in every year while the public shall be entitled to receive the same, be deducted from the amount by law payable to the said governor and company for the charges of management of*

[1] This section was repealed by Statute Law Revision Act, 1874.

the unredeemed public debt, in the same manner as the said annual sum of £180,000 *is hereby directed to be deducted therefrom.*[1]

No new bank of issue.

10. That from and after the passing of this act no person other than a banker who, on the 6th day of May, 1844, was lawfully issuing his own bank notes shall make or issue bank notes in any part of the United Kingdom.

Restriction against issue of bank notes.

11. That from and after the passing of this act it shall not be lawful for any banker to draw, accept, make, or issue, in England or Wales, any bill of exchange or promissory note or engagement for the payment of money payable to bearer on demand, or to borrow, owe, or take up, in England or Wales, any sums or sum of money on the bills or notes of such banker payable to bearer on demand, save and except that it shall be lawful for any banker who was on the 6th day of May, 1844, carrying on the business of a banker in England or Wales, and was then lawfully issuing, in England or Wales, his own bank notes, under the authority of a licence to that effect, to continue to issue such notes to the extent and under the conditions hereinafter mentioned but not further or otherwise; and the right of any company or partnership to continue to issue such notes shall not be in any manner prejudiced or affected by any change which may hereafter take place in the personal composition of such company or partnership, either by the transfer of any shares or share therein, or by the admission

[1] Repealed, as to words in *italics*, by Statute Law Revision Act, 1874.

of any new partner or member thereto, or by the retirement of any present partner or member therefrom: provided always, that it shall not be lawful for any company or partnership now consisting of only six or less than six persons to issue bank notes at any time after the number of partners therein shall exceed six in the whole.

Bankers ceasing to issue notes may not resume.

12. That if any banker in any part of the United Kingdom who, after the passing of this act, shall be entitled to issue bank notes shall become bankrupt, or shall cease to carry on the business of a banker, or shall discontinue the issue of bank notes, either by agreement with the Governor and Company of the Bank of England or otherwise, it shall not be lawful for such banker at any time thereafter to issue any such notes.

Existing banks of issue to continue under certain limitations.

13. That every banker claiming under this act to continue to issue bank notes in England or Wales shall, within one month next after the passing of this act, give notice in writing to the commissioners of stamps and taxes, at their head office in London of such claim, and of the place and name and firm at and under which such banker has issued such notes during the twelve weeks next preceding the 27th day of April last; and thereupon the said commissioners shall ascertain if such banker was, on the 6th day of May, 1844, carrying on the business of a banker, and lawfully issuing his own bank notes in England or Wales, and if it shall so appear then the said commissioners shall proceed to ascertain the average amount of the bank notes of such banker which were in circulation during the said period of twelve weeks preceding the 27th day of

April last, according to the returns made by such banker in pursuance of the act passed in the 4th and 5th years of the reign of her present Majesty, intituled "An Act to make further provision relative to the returns to be made by banks of the amount of their notes in circulation"; and the said commissioners, or any two of them, shall certify under their hands to such banker the said average amount, when so ascertained as aforesaid; and it shall be lawful for every such banker to continue to issue his own bank notes after the passing of this act: provided nevertheless, that such banker shall not at any time after the 10th day of October, 1844, have in circulation upon the average of a period of four weeks, to be ascertained as hereinafter mentioned a greater amount of notes than the amount so certified.

Provision for united banks.

14. Provided always, that if it shall be made to appear to the commissioners of stamps and taxes that any two or more banks have, by written contract or agreement (which contract or agreement shall be produced to the said commissioners), become united within the twelve weeks next preceding such 27th day of April as aforesaid, it shall be lawful for the said commissioners to ascertain the average amount of the notes of each such bank in the manner hereinbefore directed, and to certify the average amount of the notes of the two or more banks so united as the amount which the united bank shall thereafter be authorized to issue, subject to the regulations of this act.

Duplicate certificate to be published in the Gazette. Gazette to be evidence.

15. That the commissioners of stamps and taxes shall, at the time of certifying to any banker such particulars as

they are hereinbefore required to certify, also publish a duplicate of their certificate thereof in the next succeeding London Gazette in which the same may be conveniently inserted; and the Gazette in which such publication shall be made shall be conclusive evidence in all courts whatsoever of the amount of bank notes which the banker named in such certificate or duplicate is by law authorized to issue and to have in circulation as aforesaid.

In case banks become united, commissioners to certify the amount of bank notes which each bank was authorized to issue.

16. That in case it shall be made to appear to the commissioners of stamps and taxes, at any time hereafter, that any two or more banks, each such bank consisting of not more than six persons, have, by written contract or agreement (which contract or agreement shall be produced to the said commissioners), become united subsequently to the passing of this act, it shall be lawful to the said commissioners, upon the application of such united bank, to certify, in manner hereinbefore mentioned, the aggregate of the amounts of bank notes which such separate banks were previously authorized to issue, and so from time to time; and every such certificate shall be published in manner hereinbefore directed; and from and after such publication the amount therein stated shall be and be deemed to be the limit of the amount of bank notes which such united bank may have in circulation: provided always, that it shall not be lawful for any such united bank to issue bank notes at any time after the number of partners therein shall exceed six in the whole.

Penalty on banks issuing in excess.

17. That if the monthly average circulation of bank notes of any banker, taken in the manner hereinafter directed, shall at any time exceed the amount which such banker is authorized to issue and to have in circulation under the provisions of this act, such banker shall in every such case forfeit a sum equal to the amount by which the average monthly circulation, taken as aforesaid, shall have exceeded the amount which such banker was authorized to issue and to have in circulation as aforesaid.

Issuing banks to render accounts.

18. That every banker in England and Wales who, after the 10th day of October, 1844, shall issue bank notes shall on some one day in every week after the 19th day of October, 1844 (such day to be fixed by the commissioners of stamps and taxes) transmit to the said commissioners an account of the amount of the bank notes of such banker in circulation on every day during the week ending on the next preceding Saturday, and also an account of the average amount of the bank notes of such banker in circulation during the same week; and on completing the first period of four weeks, and so on completing each successive period of four weeks, every such banker shall annex to such account the average amount of bank notes of such banker in circulation during the said four weeks, and also the amount of bank notes which such banker is authorized to issue under the provisions of this act; and every such account shall be verified by the signature of such banker or his chief cashier, or, in the case of a company or partnership, by the signature of a managing director or partner or chief cashier of such company or partnership, and shall be made

in the form to this act annexed marked (B)[1]; and so much of the said return as states the weekly average amount of the notes of such bank shall be published by the said commissioners in the next succeeding London Gazette in which the same may be conveniently inserted; and if any such banker shall neglect or refuse to render

[1] The schedule is as follows:—

SCHEDULE (B).

Name and title as set forth in the licence . ——————Bank.
Name of the firm . . . . . ——————Firm.
Insert head office or principal place of issue ——————Place.

An Account pursuant to the act 7 & 8 Vict., cap. 32 of the notes of the said bank in circulation during the week ending Saturday, the day of 18 .

Monday	
Tuesday	
Wednesday	
Thursday	
Friday	
Saturday	
	6)
Average of the week .	

[*To be annexed to this account at the end of each period of four weeks.*]

Amount of notes authorized by law . . . . . £
Average amount in circulation during the four weeks ending as above . . . . . £

I, being [the banker, chief cashier, managing director, *or* partner of the bank, *as the case may be*], do hereby certify that the above is a true account of the notes of the said bank in circulation during the week above written.

(Signed)

Dated the day of 18 .

any such account in the form and at the time required by this act, or shall at any time render a false account, such banker shall forfeit the sum of £100 for every such offence.

Mode of ascertaining the average amount of bank notes of each banker in circulation during the first four weeks after 10th October, 1844.

19. That for the purpose of ascertaining the monthly average amount of bank notes of each banker in circulation, the aggregate of the amount of bank notes of each such banker in circulation on every day of business during the first complete period of four weeks next after the 10th day of October, 1844, such period ending on a Saturday, shall be divided by the number of days of business in such four weeks, and the average so ascertained shall be deemed to be the average of bank notes of each such banker in circulation during such period of four weeks, and so in each successive period of four weeks, and such average is not to exceed the amount certified by the commissioners of stamps and taxes as aforesaid.

Commissioners of stamps and taxes empowered to cause the books of bankers containing accounts of their bank notes in circulation to be inspected. Penalty for refusing to allow such inspection.

20. And whereas, in order to insure the rendering of true and faithful accounts of the amount of bank notes in circulation as directed by this act, it is necessary that the commissioners of stamps and taxes should be empowered to cause the books of bankers issuing such notes to be inspected, as hereinafter mentioned: be it therefore enacted, that all and every the book and books of any banker who shall issue bank notes under the provisions of

this act in which shall be kept, contained, or entered any account, minute, or memorandum of or relating to the bank notes issued or to be issued by such banker, or of or relating to the amount of such notes in circulation, from time to time, or any account, minute, or memorandum, the sight or inspection whereof may tend to secure the rendering of true accounts of the average amount of notes in circulation, as directed by this act, or to test the truth of any such account, shall be open for the inspection and examination, at all seasonable times, of any officer of stamp duties authorized in that behalf by writing, signed by the commissioners of stamps and taxes or any two of them; and every such officer shall be at liberty to take copies of or extracts from any such book or account as aforesaid; and if any banker or other person keeping any such book or having the custody or possession thereof, or power to produce the same, shall, upon demand made by any such officer, showing (if required) his authority in that behalf, refuse to produce any such book to such officer for his inspection or examination, or to permit him to inspect and examine the same, or to take copies thereof or extracts therefrom, or of or from any such account, minute, or memorandum as aforesaid kept, contained, or entered therein, every such banker or other person so offending shall for every such offence forfeit the sum of £100: provided always, that the said commissioners shall not exercise the powers aforesaid without the consent of the commissioners of her Majesty's Treasury.

All bankers to return names once a year to the stamp office.

21. That every banker in England and Wales who is now carrying on or shall hereafter carry on business as

such shall on the 1st day of January in each year, or within fifteen days thereafter, make a return to the commissioners of stamps and taxes at their head office in London of his name, residence, and occupation, or in the case of a company or partnership, of the name, residence, and occupation of every person composing or being a member of such company or partnership, and also the name of the firm under which such banker, company, or partnership carry on the business of banking, and of every place where such business is carried on; and if any such banker, company, or partnership shall omit or refuse to make such return within fifteen days after the said 1st day of January, or shall wilfully make other than a true return of the persons as herein required, every banker, company, or partnership so offending shall forfeit and pay the sum of £50; and the said commissioners of stamps and taxes shall on or before the 1st day of March in every year publish in some newspaper circulating within each town or county respectively a copy of the return so made by every banker, company, or partnership carrying on the business of bankers within such town or county respectively, as the case may be.

Bankers to take out a separate licence for every place at which they issue notes or bills. Proviso in favour of bankers who had four such licences in force on the 6th of May, 1844.

22. That every banker who shall be liable by law to take out a licence from the commissioners of stamps and taxes to authorize the issuing of notes or bills shall take out a separate and distinct licence for every town or place at which he shall, by himself or his agent, issue any notes or bills requiring such licence to authorize the issuing

thereof, any thing in any former act contained to the contrary thereof notwithstanding: provided always, that no banker who on or before the 6th day of May, 1844, had taken out four such licences, which on the said last-mentioned day were respectively in force, for the issuing of any such notes or bills at more than four separate towns or places, shall at any time hereafter be required to take out or to have in force at one and the same time more than four such licences to authorize the issuing of such notes or bills at all or any of the same towns or places specified in such licences in force on the said 6th day of May, 1844, and at which towns or places respectively such bankers had on or before the said last-mentioned day issued such notes or bills in pursuance of such licences or any of them respectively.

Compensation to certain bankers named in the schedule.

23. And whereas the several bankers named in the schedule hereto annexed marked (C.)[2] have ceased to issue their own bank notes under certain agreements with the Governor and Company of the Bank of England; and it is expedient that such agreement should cease and determine on the 31st day of December next, and that such bankers should receive by way of compensation such composition as hereafter mentioned; and a list of such bankers, and a statement of the maximum sums in respect of which each such banker is to receive compensation, hath been delivered to the commissioners of stamps and taxes, signed by the chief cashier of the Bank of England; be it therefore enacted, that *the several agreements subsisting between the said governor and company and the several bankers mentioned in the schedule hereto relating to the issue of Bank of England notes shall cease and determine on the* 31*st day*

of December next; and from and after that day [1] the said governor and company shall pay and allow to the several bankers named in the schedule hereto marked (C),[2] so long as such bankers shall be willing to receive the same, a

[1] As to words in *italics* repealed by Statute Law Revision Act, 1874.

[2] SCHEDULE (C.)

Banks which have ceased to issue their own bank notes under certain agreements with the Governor and Company of the Bank of England.

Bank of Liverpool.
J. Barned & Co.
Biddulph, Brothers & Co.
Birmingham Banking Co.
Birmingham Town and District Bank.
Birmingham and Midland Banking Co.
Burgess & Son.
Coopers & Purton.
Cunliffes, Brookes & Co.
Deane, Littlehales & Deane.
Dendy, Comper & Co.
Devon and Cornwall Banking Co.
Grants & Gillman.
Hampshire Banking Co.
James W. R. Hall.
J. M. Head & Co.
Henty, Upperton & Olliver.
Thomas Kinnersley & Sons.
R. J. Lambton & Co.
Liverpool Commercial Banking Co.
Liverpool Union Bank.
Liverpool Borough Bank.
Manchester and Liverpool District Banking Co.
Manchester and Salford Banking Co.
Monmouth and Glamorgan Banking Co.
Moss & Co.
Mangles Brothers.
Newcastle Commercial Banking Co.
Newcastle-on-Tyne Joint Stock Banking Co.
North of England Joint Stock Banking Co.
Northumberland and Durham District Bank.
Portsmouth and South Hants Bank Co.
T. & R. Raikes & Co.
Robinson & Brodhurst.
Sheffield Union Bank.
John Stoveld.
Sunderland Joint Stock Banking Co.
Tugwell & Co.
Union Bank of Manchester.
Vivian, Kitson & Co.
Watts, Whiteway & Co.
J. & J. C. Wright & Co.
Webb, Holbrook & Spencer.

composition at and after the rate of £1 per centum per annum on the average amount of the Bank of England notes issued by such bankers respectively and actually remaining in circulation, to be ascertained as follows; (that is to say,) on some day in the month of April, 1845, to be determined by the said governor and company, an account shall be taken of the Bank of England notes delivered to such bankers respectively by the said governor and company within three months next preceding, and of such of the said Bank of England notes as shall have been returned to the Bank of England, and the balance shall be deemed to be the amount of the Bank of England notes issued by such bankers respectively and kept in circulation; and a similar account shall be taken at intervals of three calendar months; and the average of the balances ascertained on taking four such accounts shall be deemed to be the average amount of Bank of England notes issued by such bankers respectively and kept in circulation during the year 1845, and on which amount such bankers are respectively to receive the aforesaid composition of one per centum for the year 1845; and similar accounts shall be taken in each succeeding year; but in each year such accounts shall be taken in different months from those in which the accounts of the last preceding year were taken, and on different days of the month, such months and days to be determined by the said governor and company; and the amount of the composition payable as aforesaid shall be paid by the said governor and company out of their own funds; and in case any difference shall arise between any of such bankers and the Governor and Company of the Bank of England in respect of the composition payable as aforesaid, the same shall be determined by the chancellor of the exchequer for the time being, or by some person to be named by him, and the decision of the chan-

cellor of the exchequer, or his nominee, shall be final and conclusive: provided always, that it shall be lawful for any banker named in the schedule hereto annexed marked (C.) to discontinue the receipt of such composition as aforesaid, but no such banker shall by such discontinuance as aforesaid thereby acquire any right or title to issue bank notes.

Bank of England to be allowed to compound with issuing banks. Limitation of compositions.

24. That it shall be lawful for the said governor and company to agree with every banker who, under the provisions of this act, shall be entitled to issue bank notes, to allow to such banker a composition at the rate of one per centum per annum on the amount of Bank of England notes which shall be issued and kept in circulation by such banker, as a consideration for his relinquishment of the privilege of issuing his own bank notes; and all the provisions herein contained for ascertaining and determining the amount of composition payable to the several bankers named in the schedule hereto marked (C.) shall apply to all such other bankers with whom the said governor and company are hereby authorized to agree as aforesaid; provided that the amount of composition payable to such bankers as last aforesaid shall in every case in which an increase of securities in the issue department shall have been authorized by any order in council be deducted out of the amount payable by the said governor and company to the public under the provisions herein contained: provided always, that the total sum payable to any banker, under the provisions herein contained, by way of composition as aforesaid, in any one year, shall not exceed, in case of the bankers mentioned in the schedule hereto marked

(C.) one per centum on the several sums set against the names of such bankers respectively in the list and statement delivered to the commissioners of stamps as aforesaid, and in the case of other bankers shall not exceed one per centum on the amount of bank notes which such bankers respectively would otherwise be entitled to issue under the provisions herein contained.

Compositions to cease on 1st August, 1856.

25. That all the compositions payable to the several bankers mentioned in the schedule hereto marked (C.) and such other bankers as shall agree with the said governor or company to discontinue the issue of their own bank notes as aforesaid, shall, if not previously determined by the act of such banker as hereinbefore provided, cease and determine on the 1st day of August, 1856, or on any earlier day on which parliament may prohibit the issue of bank notes.[1]

Banks within 65 miles of London may accept, &c., bills.

26. That from and after the passing of this act it shall be lawful for any society or company or any persons in partnership, though exceeding six in number, carrying on the business of banking in London, or within sixty-five miles thereof, to draw, accept or indorse bills of exchange, not being payable to bearer on demand, any thing in the hereinbefore recited act passed in the 4th year of the reign of his said Majesty King William the Fourth, or in any other act, to the contrary notwithstanding.

[1] By 19 Vict., c. 20, s. 1, sect. 25 was repealed, and right to compound continued; but by 38 and 9 Vict., c. 61, sect. 1 of 19 Vict., c. 20, has in its turn been repealed.

Bank to enjoy privileges subject to redemption.

27. That the said Governor and Company of the Bank of England shall have and enjoy such exclusive privilege of banking as is given by this act, upon such terms and conditions, and subject to the termination thereof at such time and in such manner as is by this act provided and specified; and all and every the powers and authorities, franchises, privileges and advantages, given or recognized by the said recited act passed in the 4th year of the reign of his Majesty King William the Fourth, as belonging to or enjoyed by the said Governor and Company of the Bank of England, or by any subsequent act or acts of parliament, shall be and the same are hereby declared to be in full force, and continued by this act, except so far as the same are altered by this act; subject nevertheless to redemption upon the terms and conditions following; (that is to say), at any time upon twelve months' notice to be given after the 1st day of August, 1855, and upon repayment by parliament to the said governor and company or their successors of the sum of £11,015,100, being the debt now due from the public to the said governor and company, without any deduction, discount or abatement whatsoever, and upon payment to the said governor and company and their successors of all arrears of the sum of £100,000 per annum, in the last-mentioned act mentioned, together with the interest or annuities payable upon the said debt or in respect thereof, and also upon repayment of all the principal and interest which shall be owing to the said governor and company and their successors upon all such tallies, exchequer orders, exchequer bills or parliamentary funds which the said governor and company or their successors shall have remaining in their hands or be entitled to at the time of such notice to be given as last

aforesaid, then and in such case, and not till then, the said exclusive privileges of banking granted by this act shall cease and determine at the expiration of such notice of twelve months; and any vote or resolution of the House of Commons, signified under the hand of the speaker of the said house in writing, and delivered at the public office of the said governor and company, shall be deemed and adjudged to be a sufficient notice.

Interpretation clause.

28. That the term "bank notes" used in this act shall extend and apply to all bills or notes for the payment of money to the bearer on demand other than bills or notes of the Governor and Company of the Bank of England; and that the term "Bank of England notes" shall extend and apply to the promissory notes of the Governor and Company of the Bank of England payable to bearer on demand; and that the term "banker" shall extend and apply to all corporations, societies, partnerships and persons and every individual person carrying on the business of banking, whether by the issue of bank notes or otherwise, except only the Governor and Company of the Bank of England; and that the word "person" used in this act shall include corporations; and that the singular number in this act shall include the plural number, and the plural number the singular, except where there is anything in the context repugnant to such construction; and that the masculine gender in this act shall include the feminine except where there is anything in the context repugnant to such construction.

A searching inquiry will be found in a previous part of this work into the design, import, and effects of this much-debated Act.

We proceed to give a summary of the business operations of the bank, and of the changes which have taken place in its relations to Government and the public.

The Bank of England can now issue to the extent of £18,450,000 against that amount of securities set apart for this purpose. It can issue to any farther amount against lodgments of gold and silver, as regulated by the above Act. This amount may be issued either at the office in London or at the branches. Were the bank to reduce the number of its branches it would not be required to issue less, and were the bank to increase its branches, it could issue no more. If other banks discontinue their circulation, it may upon application receive permission to extend its issues to two-thirds the sum thus withdrawn; but all the profit of this increase must go to the Government. It cannot issue any note for a less amount than five pounds. All the notes are payable in gold on demand. The payment of those issued in London can be demanded only at the London office. But the payment of those issued at the branches may be demanded either at the London office or at the branches where they were respectively issued. Bank of England notes are a legal tender in all cases, except when tendered by the bank itself.

It will be observed that the issue against securities is now £18,450,000 as compared with £14,000,000 at the time of the passing of the Act. The occasions and reasons for this increase have been lucidly set forth as follows in the "Bankers' Magazine" for March, 1866:

"The authorized issue of Bank of England notes based on Government securities, which was fixed at £14,000,000 by the Act of 1844, and which having been increased in 1855 and 1861 respectively, by the sums of £475,000 and £175,000, now stands at £14,650,000, is to be further augmented by £350,000, which will raise the total to

£15,000,000. The process is in conformity with the provisions of the law, and is perfectly simple. The basis on which the amount of purely paper circulation was fixed at the date of Sir Robert Peel's measure was as follows:— Long experience has shown that whenever the note circulation of the country declined to a point approaching £22,000,000, through the contraction forced upon bankers by an adverse state of the foreign exchanges, the scarcity of currency was so felt in its action upon prices as to cause invariably a strong turn of the tide. That total of £22,000,000 was, therefore, fixed as the safe amount at which paper, secured only by the credit of the Government, might be allowed to pass as a legal tender, and was made up by £14,000,000 issued by the Bank of England, and £8,000,000 of issues of private and joint-stock banks in the provinces. At the same time a provision was made, that if any of the latter establishments should fail or withdraw from business, then in each such case the right of issuing notes should be forfeited; and that it should be competent for the Government, by an order in council, to authorize the Bank of England to supply the deficiency thus created.

"To effect that purpose, it would not be necessary for the bank to issue more than two-thirds of the amount of the circulation that had been forfeited, because it was taken for granted that every issuing bank would keep at least a reserve of gold, equal to one-third of the notes it had issued payable on demand, and which might therefore be presented at any time; and that, consequently, the actual currency which each had put out was practically only two-thirds of its nominal amount, since to the extent of the remaining third, other currency—that is to say, gold—was withdrawn from use and locked up in their tills. Accordingly, the new issues of the Bank of England, in supplying

the deficiencies from any such failures or withdrawals, were to be limited to two-thirds.

"Gradually, after the passing of the Act in 1844, individual country banks broke down or died out, but it was not till 1855 that the vacuum thus occasioned attracted much public attention. At that date it was found that issues had during the preceding eleven years been extinguished to the extent of £710,000, and an order in council was then put forth for an increase of £475,000 in the notes of the Bank of England. Between 1855 and 1861 further lapses occurred to the amount of £262,500, and these were made up by a new order in council for an additional issue of £175,000. Thus the total paper circulation of the bank was increased from its original sum of £14,000,000 to £14,650,000, the amount at which it stood up to Thursday last.

"The process by which the new issue is effected merely consists in the purchase of Government securities to the required amount. Stocks may be bought in the open market, or an advance made to Government on Exchequer bills. The gain from this investment in the present, as in the previous instances, after deducting the annual expense for the manufacture of the notes, &c., will be placed to the credit of the Government, the bank being only an agent in the business. The actual amount of the country circulation that has lapsed since the last filling up took place in 1861, is £739,965, of which £442,000 was from a voluntary surrender on the part of the National Provincial Bank, when it determined to change its character from that of a country to a London bank. Two-thirds of this amount of £739,965 would be £493,310, but the present order is limited to £350,000, a circumstance for which no other reason can be conjectured than a desire to take the opportunity of fixing the Bank of England circulation at the symmetrical

figure of £15,000,000. The amount was included in the account published for the week ending 21st February."

The Bank of England is a bank of deposit, of loan, and of discount as well as of issue. It allows no interest on any portion of its deposits, nor permits any account to be overdrawn. It charges various rates on the bills it discounts, but does not often go below the rate it announces to be its minimum.[1] It acts as the London agent of several English, Scotch, and Irish banks. It does not accept any bills that may be drawn by those banks, or by its own branches—they are all drawn without acceptance. It does not issue any circular notes on foreign countries, nor grant letters of credit on foreign banks. It remits money to and from its branches, and from one branch to another, and issues at the London office bank-post bills, drawn at seven days after sight.

The profits of the bank are derived from its capital, its rest, public and private deposits, bank-post bills, its agencies, and its circulation. From these funds it makes investments in public securities and private securities. These bring dividends and interest. It also has a profit on the £14,000,000 of notes in circulation. This profit is the difference between the expense of maintaining the circulation, and the interest received on the securities set apart to meet this circulation. The bank has an annual payment from the Government for managing the National Debt. It also receives a commission from those banks to which it is the London agent. A profit is also supposed to be obtained on bullion transactions. Against these profits the bank has to place the expense of conducting the establishment, and the losses incurred by bad debts, forgeries, and unfortunate investments.

[1] The Bank of England usually discounts bills for its own customers at the market rate.

The remuneration which the Bank of England receives for the management of the public debt is governed by the provisions of the Bank Act, 1892 (55 & 56 Vict., c. 48), which also regulates the payment for similar services rendered by the Bank of Ireland and the mode of dealing with Bank of England notes which have been in circulation for more than forty years.

The provisions of the Act are as follows:—

An Act for making further Provision respecting certain Payments to the Banks of England and Ireland, and for other purposes connected with those Banks.

[27th June 1892.]

Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:

Remuneration to Bank of England for management of unredeemed debt inscribed in books.

1. There shall be paid to the Bank of England during the period in this Act mentioned, as remuneration for the management of the National Debt inscribed in their books, an annual sum calculated at the rate of three hundred and twenty-five pounds for every million pounds of such debt up to five hundred million pounds, and at the rate of one hundred pounds for every million pounds of such debt above the said five hundred million pounds: Provided that during the said period the said annual sum shall not be less than one hundred and sixty thousand pounds.

Remuneration to Bank of Ireland for management of unredeemed debt inscribed in books.

2. There shall be paid to the Bank of Ireland, during the period in this Act mentioned, as remuneration for the management of the National Debt inscribed in their books, an annual sum calculated at the rate of four hundred and twenty-five pounds for every million pounds, if such debt does not exceed thirty million pounds, and if it does exceed that sum, then at the rate of three hundred pounds for every million pounds of such debt: Provided that during the said period the said annual sum shall not be less than eight thousand pounds.

Remuneration to Bank of England for management of Exchequer bonds and bills and Treasury bills.

3. There shall be paid to the Bank of England, during the period in this Act mentioned, for the management in every financial year, of Exchequer bonds, Exchequer bills, and Treasury bills, an annual sum calculated at the rate, as respects Exchequer bonds and Exchequer bills, of one hundred pounds, and, as respects Treasury bills, of two hundred pounds, for every million pounds of bonds or bills outstanding on the last day of the previous financial year.

General provision as to payments for management of unredeemed debt and of Exchequer bonds and bills and Treasury bills.

4.—(1.) The annual sums fixed by this Act for the management of the National Debt inscribed in the books of the Bank of England or Ireland and of Exchequer bonds, Exchequer bills, and Treasury bills shall be pay-

able in respect of that management for every financial year up to and including the year ending the thirty-first day of March, one thousand nine hundred and twelve, and thereafter from year to year until Parliament otherwise directs.

(2.) The annual sums for the said management in any financial year shall be paid before the fifth day of July in the following financial year.

(3.) The National Debt Commissioners shall certify the amount of the unredeemed National Debt which on the last day of every financial year is inscribed in the books of the Bank of England and Bank of Ireland respectively, and the annual sums for the management of the Debt in the following financial year shall be calculated on the amount so certified.

(4.) Such certificate shall state the nominal capital amount of all the unredeemed National Debt so inscribed, and shall state the capital amount of every terminable annuity at fifteen years' purchase thereof if originally created for a term exceeding fifty years, and at ten years' purchase thereof if originally created for a term of fifty years or under.

(5.) The said annual sums shall continue to be payable out of the permanent annual charge for the National Debt.

(6.) For the purpose of calculating the said annual sums, the National Debt shall include the Local Loans stock and Guaranteed Land stock, but such proportion of those sums as is payable in respect of the management of the two last-mentioned stocks shall be paid to the Bank in the case of the Local Loans stock out of the Local Loans fund, and in the case of Guaranteed Land stock out

of money provided by Parliament for the service of the Irish Land Commission.

Rate of interest on Government debt to the Banks of England and Ireland.

5. Whereas the Bank of England and the Bank of Ireland respectively have consented to the annuity or interest on the debt to them from the public being reduced to the rate of two and three-quarters per cent. per annum until the fifth day of April one thousand nine hundred and three; Be it therefore enacted as follows:

(1.) The annuity or interest payable as part of the permanent annual charge for the National Debt—

(*a.*) in respect of the debt due from the public to the Bank of England (which at the passing of this Act amounts to eleven million fifteen thousand and one hundred pounds); and

(*b.*) in respect of the debt due from the public to the Bank of Ireland (which at the passing of this Act amounts to two million six hundred and thirty thousand seven hundred and sixty-nine pounds four shillings and eightpence),

shall be at the rate of two pounds fifteen shillings per cent. per annum, until the fifth day of April, one thousand nine hundred and three, and after that day, at the rate of two pounds ten shillings per cent. per annum: Provided that if the Bank concerned by notice in writing to the Treasury six months before the said day decline to accept such lower rate of interest, the debt to that Bank may be paid off without further notice, and until payment, the said annuity or interest shall continue to be payable at the rate of two pounds fifteen shillings per cent. per annum.

(2.) The said annuity or interest shall be paid by equal quarterly payments on the fifth day of January, the fifth day of April, the fifth day of July, and the fifth day of October in each year.

Mode of dealing with dead Bank of England notes.
7 & 8 Vict., c. 32

6.—(1.) Where Bank of England notes issued more than forty years have not been presented for payment, the Bank of England may write off the amount, or any proportion of the amount of the said notes from the total amount of notes issued from the issue department, and the Bank Charter Act 1844 shall apply as if the amount of notes so written off had not been issued; Provided that—

(*a.*) a return of the amount of notes so written off shall be forthwith sent to the Treasury and laid by them before Parliament; and

(*b.*) this section shall not affect the liability of the Bank to pay any note included in the amount so written off, and if it is presented for payment the amount shall either be paid out of the bank notes, gold coin, or bullion, in the banking department, or, if it is exchanged for gold coin or bullion in the issue department, or for a note issued from the issue department, a corresponding amount of gold coin or bullion shall be transferred from the banking department and appropriated to the issue department.

(2.) This section shall be construed as one with the Bank Charter Act, 1844.

Internal regulations and stock of Bank of England.

7.—(1.) It shall be lawful for Her Majesty the Queen to grant, and for the Bank of England to accept, a supplemental charter regulating the internal affairs of the corporation of the Bank of England, and if such charter is granted the Act specified in Part III. of the schedule to this Act shall be repealed as from the date of such supplemental charter to the extent in the third column of that schedule mentioned.[1]

(2.) Notwithstanding the repeal of any enactment by this Act the capital stock of the Bank of England as existing at the passing of this Act shall be subject to the enactments so far as unrepealed which relate to stock of the Bank of England, and the holders of the stock shall be members of the corporation of the Bank of England.

Short title, commencement, and repeal.

8.—(1.) This Act may be cited as the Bank Act, 1892.

(2.) This Act shall take effect as from the beginning of the current financial year.

(3.) The Acts set out in Parts I. and II. of the schedule to this Act are hereby repealed to the extent in the third column of that schedule mentioned.

The Bank of England established branches in the year 1826, at the suggestion of Lord Liverpool, in order to extend to the provinces the advantage of a *secure* circulation. This was considered the grand desideratum at that time, in consequence of the numerous failures that had recently taken place among the country bankers; and was effected with the greater facility, in consequence of the establish-

[1] This charter was applied for and granted in 1896.

ment of joint-stock banks, who made arrangements for issuing Bank of England notes.

The branches being not merely banks of circulation, but of deposit, of discount, and of remittance, they came into competition with the country bankers. This, in some cases, reduced the charges previously made on banking transactions. As banks of discount, they charged the same rate which was charged at the London office—a charge usually below that of the country banks. As banks of remittance, they granted letters of credit at a shorter term. As banks of deposit, they charged no commission. But, on the other hand, they allowed no interest on the balance, and they allowed no account to be overdrawn; and they would not receive from their depositors any country notes unless the banks had previously opened an account with them, and made a lodgment to meet their notes.

The branches are all subordinate to the parent establishment. They carry on the ordinary business of local banking, and of London banking as well, in addition to issing bank notes and bills. Cash for their notes can be demanded only at the particular branch which has issued them, or in London. The accounts are balanced every night, and the balance transmitted to town daily, together with particulars of all the transactions of the day. One of the most important public services performed by the branches is the remittance of the revenue, which is paid into them by the collectors, and credit is then at once given to the exchequer account in London.

The bank has branches at Birmingham, Bristol, Hull, Leeds, Liverpool, Manchester, Newcastle, Plymouth, Portsmouth, and two in London, called the West-end Branch, and the Law Courts Branch.

It had originally branches at Exeter, Gloucester, Norwich, Swansea, and Leicester.

The branch at Exeter was closed May 1, 1834; the Gloucester branch on the 28th February, 1849; the Norwich branch, May 31, 1852; the Swansea branch on 28th February, 1859; and the Leicester branch on 29th February, 1872. The reasons assigned for withdrawing these branches do not appear very satisfactory. The Exeter branch was closed because another branch was opened on the same day at Plymouth, and the branch was said *to be removed* to Plymouth. The opening of a new branch at Plymouth seems to have no necessary connection with the closing of that at Exeter. The Gloucester branch was closed because a railway had been opened to Bristol, and the people of Gloucester might, if so disposed, transact their business with the Bristol branch. The distance between Gloucester and Bristol is about the same as that between Manchester and Liverpool; but the directors have never announced any intention of closing their branch at Manchester, upon the ground that there is a railway to Liverpool. The true reason we believe to be, that the business at these branches had not realized the anticipations of the directors. The active opposition of the private bank of Messrs. Sparkes & Co. (afterwards merged in the Devon and Cornwall Bank), prevented the Exeter branch obtaining much business. At one time the Gloucester Banking Company issued only the notes of the Gloucester branch, but afterwards they resumed the issue of their own notes, and hence, in 1843 and subsequent years, the circulation of this branch declined. The Norwich branch not only obtained but small business, but made large losses. It appears from parliamentary returns that so early as the year 1831, the bad debts at this branch amounted to £32,000. It may be remarked that three of the branches withdrawn were located in the centre of agricultural districts, and the most prosperous branches have

been located in manufacturing and commercial towns, as Manchester, Liverpool, Birmingham, and Newcastle.

Here is another anomaly of the Act of 1844. The Bank of England is placed in a position in which it is its interest to withdraw some of its branches. At the same time, the banks of issue in the neighbourhood of those branches are not allowed to extend their issues so as to fill up the vacuum which is thus occasioned in the amount of the local circulation.

In addition to the management of the Government Funded Debt, which has always been conducted by the Bank of England, that corporation has of late years undertaken the management of the Government Unfunded Debt, formerly managed by the Exchequer Office, of the Indian Debt, of the Metropolitan Funded Debt, the London County Council Debt, and many others.

Pari passu with this increase of business, additional facilities have been afforded to the recipients of dividends of the various stocks by giving them the option of receiving their dividend warrants by post, or at any of the branches of the Bank of England. The bank has also waived the charge of 1*s.* 6*d.* which it formerly made for preparing powers of attorney for the receipt of dividends.

In the Bullion Office an important modification has been made in the assay by which gold is bought and sold. Formerly, what was called the Trade Report was used, and the fineness of the gold was quoted to the $\frac{1}{8}$ of a carat grain, equal to $7\frac{1}{4}$ grains Troy, or the 768th part of the whole. This left a small profit to the bank on gold bullion imported by them into the Mint for the purposes of the coinage, since the Mint assayed much closer; whereas the assay now used at the bank determines to the $\frac{1}{3}$ of a millième, equivalent to the $\frac{1}{3000}$ part of the whole, and leaves

no appreciable difference between the bank and the Mint assay.

The price at which light gold coin is bought by the bank has also been raised from £3 17*s.* 6½*d.* per ounce to £3 17*s.* 9*d.*, the authorities of the Mint receiving this coin from the bank at £3 17*s.* 10½*d.*, instead of requiring it to be remelted and reassayed, as was the practice previously. It is to be hoped that this change, which decreases the loss on light coins, will tend to induce bankers to withdraw them from circulation, and thus lend their aid to purge the gold currency, which is at present in a very unsatisfactory condition.[1]

Under the Stock Certificates Act, 1863 (26 Vict. c. 28), the bank issues stock certificates for Consols. These certificates are transferable by delivery; but the transfer may be restricted by the holder filling in his name, address, and quality, in a space provided for the purpose. These certificates are of the denominations of £50, £100, £200, £500, and £1000, and coupons are attached, payable to bearer.

The stockholder, when he desires to obtain certificates, transfers the stock in the Transfer Office in which the business of that particular stock is transacted, where he receives a certificate of the transfer, and this he exchanges in the Chief Cashier's Office for the stock certificate he requires.

When a holder of stock certificates wishes to have the stock they represent reinscribed, he delivers them up in

[1] By the terms of the Coinage Act of 1891 the Mint now exchanges worn gold coins, through the Bank of England, for new coins, provided they show no evidence of ill-usage, such evidence being the loss of three grains or more in weight. The operation of this Act has greatly improved the condition of the gold coinage.

the Chief Cashier's Office, and receives a certificate entitling him to have a corresponding amount of stock inscribed in his name in the Transfer Office of the stock.

The Government makes a charge of 2*s.* per cent. for the issue of certificates, and 1*s.* per certificate for reinscription.

Stock certificates for Metropolitan Stocks are issued in exactly the same terms as certificates for the Government Funds, and for corresponding amounts, with the exception that there are no certificates of £200.

Stock certificates for India $3\frac{1}{2}$ per cent., 3 per cent., and $2\frac{1}{2}$ per cent. stock are issued for £100, £500, and £1000; but the transfer of these certificates cannot be restricted, and the charges are slightly different from those for the Government funds.

Most of the other stocks inscribed at the Bank of England can be exchanged for Stock Certificates to bearer.

The Laws of the Currency with Reference to the Bank of England.—In March, 1841, I was, at the request of the joint-stock banks, examined as a witness before a Select Committee of the House of Commons, "appointed to inquire into the effects produced on the circulation of the country by the various banking establishments issuing notes payable on demand." The charge advanced at the time against the issuing joint-stock banks, and generally against all banks of issue, was, that they did not make the amount of their circulation correspond with the amount of the circulation of the Bank of England. With reference to this accusation, I laid before the committee a variety of tables, designed to show the laws which regulated the circulation of the Bank of England, of the country banks, and of the Banks of Ireland and of Scotland respectively. The inference was designed to show that no correspondence could exist between the circulation of these several

banks. These tables cannot be introduced here. But the following is a summary of my evidence on this subject, taken from an article on "The Laws of the Currency," which I published in the "Foreign and Colonial Review" of April, 1844:

"We have before us two reports from the Committee on Banks of Issue, laid before the House of Commons in the years 1840 and 1841. The committee report the evidence, and abstain from giving any opinion upon the great questions involved in the inquiry. They, however, recommended the passing of the Act 4 & 5 Vict., c. 50, requiring a monthly registry of the circulation of the Bank of England, and of the other banks of issue, with the amount of bullion, to be published in the 'Royal Gazette.' It may therefore be expected that, in a course of years, a sufficient number of facts will be recorded to enable future generations to form 'well-grounded opinions' on this important subject.

"In the meantime we will make use of the information we already possess. We will take the monthly returns of the circulation for the period that is past, that is, from September, 1833, to the end of 1843, and endeavour, by observing their various revolutions, to discover if they are governed by any fixed causes or principles—to ascertain if those principles are uniform in their operation; and if we should discover that the revolutions of the currency are regulated by any uniform principles, we shall call those principles the Laws of the Currency.

"We shall begin with that portion of the currency which consists of notes issued by the Bank of England. On looking over the monthly circulation of the Bank of England, given in the Table No. 34, in the Appendix to the Report of 1840, we observe, that the circulation of the months in which the public dividends are paid is higher

than in the subsequent months. Thus, the average circulation of January is higher than that of February or March. The circulation of April is higher than that of May or June. The circulation of July is higher than that of August or September. And the circulation of October is higher than that of November or December. This, then, we may consider as one law of the circulation of the Bank of England—that it ebbs and flows four times in the year, in consequence of the payment of the quarterly dividends. This law does not apply to any other bank, as all the Government dividends are paid by the Bank of England.

"Again, the purchase and sale of Government stock and exchequer bills by the Bank of England affect the amount of her circulation. If the bank purchase Government stock or exchequer bills, she pays for them in her own notes, and thus increases her circulation. If, on the other hand, she sell Government stock or exchequer bills, she receives payment in her own notes, and thus her circulation is diminished. Another law, then, and one peculiar to the Bank of England, is, that her circulation is affected by the purchases and sales of Government securities.[1]

"As the payment of the public dividends puts into circulation the notes of the bank, the receipt of the public revenue will of course withdraw her notes from circulation. A large amount of the public revenue is paid at the latter part of the year, and this probably is the main cause why the amount of the Bank of England circulation is always the lowest in the month of December. Although the circulation ebbs and flows four times in the year, yet the

[1] It is very doubtful whether the active circulation of Bank of England notes is now appreciably affected by the purchases and sales of Government securities by the Bank.

December[1] point is always the lowest point throughout the year; and this is the case in every year, although the Bank of England is always open in December for short loans, the granting of which increases her circulation. This, then, is another law of the circulation.

"If the bank purchase bullion with her notes, that will of course increase her circulation; if she sell bullion, that will diminish her circulation: and, as the bank is always open for the purchase of bullion at a fixed price, and as gold may at all times be withdrawn from her in payment of her notes, her circulation is subject to considerable fluctuation from this cause. There is not, however, any uniform correspondence between the amount of her circulation[2] and the amount of her bullion; for when she pays the public dividends, she increases her notes, but diminishes her bullion; and when she receives the public revenue, as in December, her circulation is diminished, but the bullion is increased. These contrary fluctuations are occasioned by that portion of our currency which is under £5 consisting of the precious metals; but they do not impugn the law which states that the purchase of gold increases, and the sale of gold diminishes, the amount of her circulation.

"We have thus traced those peculiar laws which regulate the monthly revolutions of the circulation of the Bank of England. We shall now proceed to its annual revolutions.

"Any of the causes of the monthly fluctuations of the circulation of the Bank of England, if called into operation

[1] This is now no longer the case.

[2] The word "circulation" means of course the amount of notes in the hands of the public. Since the passing of the Act of 1844 the word has been sometimes used in a more extended sense, so as to include also the notes in the banking department of the Bank of England.

more in one year than in another, may become causes of annual fluctuations. But the most uniform and permanent cause of annual fluctuation appears to be made by the purchases and sales of bullion. The word 'bullion' in the bank returns, means gold and silver, whether coined or uncoined, and whether lying at the head office or at the branches. When the foreign exchanges are in favour of this country, bullion is imported and sold to the Bank of England; and when the exchanges are unfavourable, gold is exported, and the exporters obtain the gold from the Bank of England, either by purchase or by demanding payment of her notes. In most cases, however, the circulation does not fluctuate so much as the bullion. For when notes are issued against a large importation of bullion, money becomes abundant and cannot be employed, and hence it is lodged by bankers and others in the Bank of England, on deposit. But so long as the bank keeps her securities of the same amount, the increase of the bullion will always be about equal to the increase of the circulation and the deposits added together. And on the other hand, when an adverse exchange draws bullion from the bank, the deposits decrease as well as the circulation: and the decrease in both together will be equal to the amount of gold withdrawn; that is, supposing the securities to remain the same.

"By 'securities' is meant Government stock, exchequer bills, loans, discounted bills, or anything else on which the bank may have advanced money. It is a principle of management by the bank to keep the total amount of their securities equal, or nearly so; and so long as this rule is acted upon, the tendency of exportations or importations of bullion to produce the variations we have described, must be considered as one of the laws of the circulation."

One Bank of Issue.—Mr. Cotton, who was the Governor

of the Bank of England when the Act of 1844 was passed, stated in the evidence before a Committee of the House of Commons, in 1848, that the ultimate object of that Act was the establishment of one bank of issue.[1] I was examined on this subject before the Committee on Banks of Issue, in the year 1841. The following is a summary of my evidence:

1. *If we had only one bank of issue we should have sometimes too much money and sometimes too little for the wants of trade.*—"I think it is one of the inconveniences of a metallic currency, and would, in fact, be one of the inconveniences of a sole bank of issue, that at one part of the year we should have too much money, and at another part too little; because, as money would not fluctuate in amount, and the demands of trade would fluctuate, the amount of money would not be proportionate throughout the year to the demands of trade." . . . "I have shown, from Appendix 34, that even taking the whole circulation together, there is a difference varying from two to four millions in the total amount of the circulation; and, therefore, after supposing all these transfers to have taken place, if they could have taken place at all, and that the surplus of one district was to supply the wants of another, still there would be a very great inequality in the amount of money, as compared with the demands of trade."

"It appears, from Appendix 34, that the total amount of notes in England, Scotland, and Ireland, varies very considerably in different months of the year. Supposing, then, that you had one bank, and that all the notes in circulation were the notes of that one bank, which did nothing but issue notes against gold, and gold against notes, how would you employ those notes which were not

[1] Commons, 4561.

wanted in the slack periods of the season?" . . . "It is evident, from Appendix 34, that during some part of the year there is not employment for the entire amount of money that is required in another season of the year; and if you had one bank of issue, as you could not contract the circulation, you would have a surplus circulation, which would have the effect of lowering the rate of interest, and promoting speculation."

2. *One bank of issue would reduce the means of the country bankers to afford assistance to their customers, and hence cause great distress, especially in the agricultural districts.*— "What would be the effect which you think it would produce upon country bankers?" . . . "I think the banks, in the first place, having to pay off their notes, it would reduce their funds, from which they now give accommodation to their customers; and in order to find funds to pay off those notes, they would have to recall loans, and to reduce discounts to such a degree as to cause considerable distress throughout the country, and more especially in the agricultural districts."

3. *The bankers would be compelled to increase their charges.* —"What effects do you imagine would ensue when the measure had once been carried into effect?" . . . "After the measure had once been carried into effect, the charges which the country bankers would be compelled to make upon that accommodation which they would still have the power of affording must be considerably increased."

"Why?" . . . "Because they would then get no profit upon the notes; at present they can afford to advance money at a low rate of interest when issued in their own notes, because of the profit upon those notes. When I was in Ireland, I discounted bills at the same rate which was charged by the Bank of England here, and for the same reason, because I issued my own notes; but if the country

bankers had to bring the money from a distance and lend it to their customers, they must get a greater interest from their customers than they could get by employing it in London or elsewhere, and hence they must make, either in the form of interest, or in the form of commission, heavier charges than they made before."

4. *One bank of issue would cause some of the smaller banking establishments to be discontinued.*—"The profit on the circulation being thus reduced, there would be a further effect by the limitation of banking establishments; for some of those establishments are so small, and established in places so remote, that they would scarcely pay the expense of conducting them, unless for the profits of the circulation; and yet the withdrawal of those establishments, though connected with no great profit to the bank, would be attended with very considerable loss and inconvenience to the inhabitants of those places, because those banks act as receivers of the surplus capital, and hence they are useful to persons who have money to place in those banks: they act as discounters and granters of loans, and hence they are useful to the productive industry of the country; they are also useful as banks of remittance, for the purpose of making payments from those places elsewhere, and hence they are useful to traders; and those useful purposes, as far as many small banks are concerned, would be altogether annihilated if those establishments did not issue their own notes."

"In your opinion, the suppression of their circulation would render it necessary for them to charge a higher commission upon their operations, or a higher interest upon the loans which they make?" . . . . "With regard to those small establishments, I do not think any rate of commission could pay the expense: with regard to the larger establishments, you might make up for the deficiency

of profit upon the circulation by an increased charge of commission; but with regard to small establishments, in remote places, the business is not sufficient, even with the charge of commission, to pay the expense without the profits of the circulation; annihilation of the circulation would lead to annihilation of the bank."

5. *One bank of issue would lead to the substitution of bills of exchange, or some other form of credit currency.*—"Do you conceive that it would have any effect upon what you have called the amount of the circulation, which in your opinion is required at different times of the year?" . . . . "I think it would have a considerable effect generally in the reduction of the circulation; because, if the circulation was issued by one single bank, the local bankers in the respective districts would have no interest in increasing the amount of that circulation, and hence, in places where it could be done, the bankers would most likely have recourse to a bill circulation, and they would substitute bills for the circulation of this one bank of issue. We know that at Manchester and Liverpool, and in other places in that district, a bill circulation a short time ago was almost the entire circulation; and it was not till the Bank of England established branches in those places that the bill circulation became considerably reduced; and even then the bank obtained a circulation in those places only by offering their notes to country bankers at a reduced rate of interest. Now, if you had only one bank of issue, it is not to be supposed that the country bankers would obtain those notes at a reduced rate of interest, and consequently they would have no advantage in getting them into circulation; they would fall back upon their bill circulation, upon which they got a profit, and the amount of note circulation would, I think, be considerably reduced."

6. *With one bank of issue the reactions of the Foreign*

Exchanges would produce great and universal distress, and yet not accomplish that constant conformity between the London and country circulation which is sought to be attained.—"Do you conceive that such a change as has been contemplated, namely, the abolition of country bank notes, would produce any effect upon the foreign exchanges?" . . . . "The effect upon the foreign exchanges would depend upon the principle upon which the single bank of issue was conducted. If conducted merely by issuing gold for notes and notes for gold, I consider that when the foreign exchanges were favourable, and brought in a large amount of gold, then there would be a large amount of notes put into circulation. I think that was the case in 1837 and 1838, although the Bank of England did not issue to such an extent as, upon the principle assumed, this one bank of issue would be compelled to do. I consider that thus this large amount of notes put into circulation against the importation of gold would reduce the rate of interest, would excite speculation, and lead to foreign investments; that a reaction would then take place, and the amount of contraction would be very considerable, so as to produce very great distress."

"Now, whether you have different banks, or whether you have only one bank, if there is a certain amount of circulation in the country, and a certain amount in London, and the Bank of England, or the central bank, purchase a large amount of bullion in London, that immediately disturbs the proportion that existed between the London circulation and the country circulation; and, on the other hand, if there is a demand for bullion to go abroad, and bullion is sold at the central office, that will contract the circulation, and contract it much more than it could be immediately contracted in the country. If, therefore, the liability to a disproportion in amount between the country

and the London circulation is a defect in the existing system, it is a defect which the establishment of only one bank of issue will not remedy."

7. *The establishment of one bank of issue would embarrass the fiscal operations of the Government.*—"I may now state, with reference to the payment of the public dividends, that the Bank of England advances loans in December, before the dividends are paid, which loans are discharged after the dividends are paid, and thus the fluctuation in the currency is very considerably diminished from what it otherwise would be. Now, if we had a bank that could not do this, if the currency were issued upon what have been called currency principles, then the Chancellor of the Exchequer must have the whole amount of the January dividends in his strong-room before he could pay those dividends. Out of the circulation of England and Wales, consisting of about £28,000,000, you must collect eight millions and a half, and lock them up in the custody of the Government previously to the payment of the dividends; then you pay out in a mass these eight millions and a half, and that in a state of contracted currency; and thus you go on, four times in the year, producing the most violent and most extravagant fluctuations: whereas now, by the excellent plan adopted by the Bank of England in issuing her notes before the payment of the dividends, by means of loans, which are discharged after the payment of the dividends, notwithstanding you pay eight millions and a half of dividends, you produce a fluctuation in the currency of only two millions and a half."

8. *The principle of one bank of issue cannot be applied to the various currencies of the United Kingdom.*—"What is the general conclusion which you propose to draw from the tables you have put in?" . . . . "The general conclusion I would draw is, that the Bank of England is governed by

certain laws which do not apply to the country circulation; that the country circulation of England is also governed by laws peculiar to itself; that the circulation of Ireland is also governed by laws peculiar to itself; that the circulation of Scotland is also governed by laws peculiar to itself; that those respective circulations are all governed by uniform laws, as is shown by their arriving at nearly the same point at the same period of the year; and, therefore, that you cannot introduce any system by which all those various circulations, governed by different laws, can be amalgamated into one system; that such a system would be at variance with itself, and would tend to destroy that beautiful system of country banking which now exists in this country—a system which has tended very much to the prosperity of this country, which, by receiving the surplus capital of different districts, and giving out the capital for the encouragement of trade, calls forth all the natural resources of the country, and puts into motion the industry of the nation, and at the same time supplies a circulation which expands and contracts in each district according as it is required by the trade or agriculture of the district. Those expansions or contractions take place at different periods of the year in different districts; the circulation expands when the wants of trade require it, and when no longer wanted it again returns; and I think this beautiful system, in the language of the resolutions passed by the deputies from the joint-stock banks, 'has greatly promoted the agriculture, trade, mining, and general industry of the nation, and that equal advantages cannot be produced by one bank of issue.'"

We shall conclude this section by copying the correspondence between the First Lord of the Treasury and the Chancellor of the Exchequer and the Bank of England respecting the suspension of the Act of 1844:

"Downing Street, Oct. 25th, 1847.

"GENTLEMEN,

"Her Majesty's Government have seen with the deepest regret the pressure which has existed for some weeks upon the commercial interests of the country, and that this pressure has been aggravated by a want of that confidence which is necessary for carrying on the ordinary dealings of trade.

"They have been in hopes that the check given to dealings of a speculative character, the transfer of capital from other countries, the influx of bullion, and a feeling which the knowledge of these circumstances might have been expected to produce, would have removed the prevailing distrust.

"They were encouraged in this expectation by the speedy cessation of a similar state of feeling in the month of April last.

"These hopes have, however, been disappointed, and Her Majesty's Government have come to the conclusion that the time has arrived when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile and manufacturing community.

"For this purpose, they recommend to the Directors of the Bank of England in the present emergency to enlarge the amount of their discounts and advances upon approved security; but that in order to retain this operation within reasonable limits a high rate of interest should be charged.

"In present circumstances they would suggest that the rate of interest should not be less than eight per cent.

"If this course should lead to any infringement of the existing law, Her Majesty's Government will be prepared to propose to Parliament on its meeting a Bill of Indemnity.

They will rely upon the discretion of the directors to reduce as soon as possible the amount of their notes if any extraordinary issue should take place, within the limits prescribed by law.

"Her Majesty's Government are of opinion that any extra profit derived from this measure should be carried to the account of the public, but the precise mode of doing so must be left to future arrangement.

"Her Majesty's Government are not insensible of the evil of any departure from the law which has placed the currency of this country upon a sound basis; but they feel confident that, in the present circumstances, the measure which they have proposed may be safely adopted, and at the same time the main provisions of that law, and the vital principle of preserving the convertibility of the bank note, may be firmly maintained.

"We have the honour to be, Gentlemen,
"Your obedient, humble Servants,
(Signed) "J. Russell.
"Charles Wood.

"The Governor and Deputy Governor
"of the Bank of England."

"Bank of England, Oct. 25th, 1847.

"Gentlemen,

"We have the honour to acknowledge your letter of this day's date, which we have submitted to the Court of Directors, and we enclose a copy of its Resolutions thereon.

"We have the honour to be, Gentlemen,
"Your most obedient Servants,
"James Morris, Governor.
"H. J. Prescott, Deputy Governor."

At a Court of Directors, at the Bank of England, Monday, October 25, 1847:

"Resolved—

"1. That this Court do accede to the recommendation contained in the letter from the First Lord of the Treasury and the Chancellor of the Exchequer, dated this day, and addressed to the Governor and Deputy Governor of the Bank of England, which has just been read.

"2. That the minimum rate of discount on bills not having more than ninety-five days to run be 8 per cent.

"3. That the advances be made on bills of exchange, on stock, exchequer bills, and other approved securities, in sums of not less than two thousand pounds, and for a period to be fixed by the Governors, at the rate of 8 per cent. per annum."

"Downing Street, Nov. 23rd, 1847.

"GENTLEMEN,

"Her Majesty's Government have watched with the deepest interest the gradual revival of confidence in the commercial classes of the country.

"They have the satisfaction of believing that the course adopted by the Bank of England, on their recommendation, has contributed to produce this result, whilst it has led to no infringement of the law.

"It appears from the accounts which you have transmitted to us, that the Reserve of the Bank of England has been for some time steadily increasing, and now amounts to £5,000,000. This increase has in a great measure arisen from the return of notes and coin from the country.

"The bullion exceeds £10,000,000, and the state of the exchanges promises a further influx of the precious metals.

"The knowledge of these facts by the public is calculated to inspire still further confidence.

"In these circumstances it appears to Her Majesty's Government that the purpose which they had in view in the letter which we addressed to you on the 25th October has been fully answered, and that it is unnecessary to continue that letter any longer in force.

"We have the honour to be, Gentlemen,

"Your obedient, humble Servants,

(Signed) "J. Russell.

"Charles Wood.

"The Governor and Deputy Governor
of the Bank of England."

"Bank of England, Nov. 23rd, 1847.

"Gentlemen,

"We have the honour to acknowledge the receipt of your letter of this day's date, in which you communicate to us that in consequence of the gradual revival of confidence in the commercial classes of the country, it appears to Her Majesty's Government that the object they had in view in the letter they addressed to us on the 25th October has been fully answered, and that it is unnecessary to continue that letter any longer in force.

"We have the honour to be, Gentlemen,

"Your most obedient Servants,

"James Morris, Governor.

"H. J. Prescott, Deputy Governor.

"To the First Lord of the Treasury and the
Chancellor of the Exchequer."

SECTION XXVII.

THE LONDON PRIVATE BANKERS.

BY the Bank Charter Act of 1844 (7 & 8 Vict., c. 32, s. 21), it was enacted "that every banker in England and Wales, who is now carrying on, or shall hereafter carry on business as such, shall, on the first day of January in each year, or within fifteen days thereafter, make a return to the Commissioners of Stamps and Taxes at their head office in London, of his name, residence, and occupation, or in the case of a company or partnership, of the name, residence, and occupation of every person composing or being a member of such company or partnership, and also the name of the firm under which such banking company or partnership carry on the business of banking, and of every place where such business is carried on; and if any such banker, company, or partnership, shall omit or refuse to make such return within fifteen days after the said first day of January, or shall wilfully make other than a true return of the persons as herein required, every banker, company, or partnership so offending, shall forfeit and pay the sum of £50; and the said Commissioners of Stamps and Taxes shall, on or before the first day of March in every year, publish in some newspaper circulating within each town or county respectively, a copy of the return so made by every banker, company, or partnership carrying on the business of bankers within such town, or county respectively, as the case may be."

This was the first time that any of the banking companies in London were required to make returns to Government of the number or names of their partners. All banks that issued notes were required, when they applied for a licence, to name their partners; but as none of the London bankers issued notes, they required no licence, and made no return. Nor did the joint-stock banks established in London make any returns to the Government of their partners. For as they did not possess, until 1844, the power of suing and being sued in the name of their public officers, they did not register, at any Government office, the names of their partners, though, in some cases, these names were appended to the Annual Reports of the directors. This Act came into operation in January, 1845, and we have now, therefore, the means of obtaining the names of all the partners in all the banking establishments throughout England and Wales.

The Act not only requires that the bankers shall make these returns between the first and fifteenth of January in each year, it requires also, that the Commissioners of Stamps and Taxes shall publish them before the first of March following, in some newspaper that circulates within the town or county in which the bankers making the return carry on their business. The returns from the London banks are published in supplements to the "London Gazette," which we presume is considered to be a newspaper within the meaning of the Act.[1]

The particulars required to be returned by the Act, and stated in the "Gazette," are, the name of the firm or company; the name, residence, and occupation of the persons of whom the company or partnership consists; and

[1] Companies registered under the Companies Acts are not bound by this section of the Act of 1844. Cf. 45 & 46 Vict., c. 72, sec. 11 (1).

the name of the place or places where the business is carried on.

The Clearing Banks are banks of deposit and of discount, and they act as agents to the country banks. The banks in Fleet Street and in Westminster do not usually discount bills for their customers, nor act as agents to country banks. Their connections embrace chiefly the clergy, the gentry, and the nobility. Their loans to their customers are chiefly upon landed security or stocks and shares, and they are supposed to hold a large amount of Government securities.

Those who act as agents to country banks charge a commission on the debit side of the account, and some of them allow interest on the daily balance. Instead of a *pro ratâ* commission, some country banks pay their agent by a fixed annual payment, or by keeping in his hands a certain balance without interest. None of the present London bankers have ever issued notes,[1] though, until the year 1844, they had legally the power of doing so. Most of them issue "Circular Notes," for the use of travellers on the Continent.

The following is a summary of part of the evidence delivered before the Bank Committee of 1832, by George Carr Glyn, Esq., respecting the London bankers:

"There are sixty-two private banks in the metropolis, none of which for the last fifty years have issued notes of their own, though it would seem that such of them as consist of fewer than six partners might lawfully circulate their own paper if they pleased. As they act entirely with the Bank of England paper, it is doubtful whether there be any limit to the number of partners of which London private banks may consist. They receive deposits, upon

[1] This is not quite true. There are still in existence notes issued by Child's Bank at various dates during the eighteenth century.

which they pay no interest. The system of allowing interest on deposits was formerly tried in London, but the houses that attempted it invariably failed. The deposits held by the London bankers are generally composed of very large sums, which are necessarily payable on demand; and hence they cannot be made use of to the same extent as those which are entrusted to country bankers, and which, whenever interest is allowed, are usually left with them for a stipulated period. On the other hand, in all ordinary transactions, the London banks charge no commission to their customers.

"The London banks, in order to be able to meet their engagements, usually keep a large deposit, nearly equal, perhaps, to half of what they hold in reserve, in the Bank of England; a portion of their current funds they necessarily hold at home in bank paper, and a small amount in gold. Their deposit in the bank they consider as so many notes in their drawer, liable to be called out by the daily fluctuations in the accounts of their customers. The balances in their hands, often very large, are frequently withdrawn without notice; hence their intercourse is almost hourly with the Bank of England, from which they receive every facility.

"In order to turn their funds to profit, the London bankers employ as much money as they can amongst their customers. They invest a considerably larger proportion of their deposits in bills of exchange and promissory notes than in public securities. The city banker is, however, under a disadvantage in this respect, which is not felt by the banker at the west end of the town. The latter may, to a certain extent, depend upon the use of the money deposited with him, as his accounts are usually those of country gentlemen, and individuals out of trade; whereas the former, whose accounts are principally those of per-

sons actively engaged in commercial or money operations, can hardly know three days beforehand what the amount of his deposits may be at any given period. The London bankers are obliged to employ their money occasionally at a very low rate of interest. In some cases, it may have been within the last twelve months, $2\frac{1}{2}$ per cent.; but the average has been from 3 to $3\frac{1}{2}$, and it has fairly kept at that rate. The highest rate has been 4 for short bills, but 5 has been charged for bills of twelve or eighteen months."

SECTION XXVIII.

LONDON JOINT-STOCK BANKS.

AS an introduction to the joint-stock banks of London, we avail ourselves of the following sketch of the history of joint-stock banking which we find in Mr. H. D. Macleod's elaborate and accurate work. We do this with the greater satisfaction on account of the testimony it bears, by implication, to the merits of the late Mr. Gilbart, and the "enormous difficulties" talent and energy such as his alone could have surmounted:

"An attempt in 1823 to gain the consent of the Bank of England to give up the privileges of their Charter, so far as to permit joint-stock banks to be formed in the country, having failed, even though a bribe was offered, nothing further took place till 1826, when the disasters of the preceding year being very generally attributed to the improper management of the country banks, the Ministry were powerful enough to compel the Bank to give up its unjustifiable monopoly, and at length agreed to permit joint-stock banks to be formed beyond sixty-five miles from the metropolis. The Statute 1826, c. 46, was passed for this purpose.

"This Act made no provisions regarding the constitution or capital of these companies. Each one was allowed to devise a constitution for itself, to name its own capital, and to make any public announcement regarding it that it pleased. The formation of joint-stock banks under this Act proceeded very slowly at first, not more than four or

five being formed in as many years. In fact, such banks could only be successfully formed by influential persons, and, of course, each of these had already his own bank, which he would naturally be unwilling to injure by the formation of so powerful a rival. The first joint-stock bank was formed at Lancaster, the next at Bradford, and another at Norwich, before any one was formed at one of the great manufacturing towns. It was not till the prosperous years of 1833-34-35-36, that any very remarkable increase took place in their numbers. In these years, however, they multiplied rapidly, more especially in 1836, when upwards of forty were established in the spring.

"On the renewal of the Bank Charter in 1833, it was determined to take off the vexatious restriction of preventing banking companies making their bills and notes for less than £50, payable on demand by their agents in London. And they were required to keep weekly accounts, to be verified on oath, of the amount of their notes in circulation, and make a return to the Commissioners of Stamps of the average amount in circulation every quarter.

"It was at this time that the discovery made in 1822 by Mr. Joplin, that the Bank Charter did not prohibit joint-stock banks being formed in London, and carrying on their business on the method then adopted by the London bankers, attracted attention, and, on the case being submitted to the law officers of the Crown, they confirmed this view. The flank of the monopoly of the Bank of England, as we may say, being turned in this extraordinary and unexpected manner, excited much consternation and alarm in that body, and they requested to have this omission rectified, but Lord Althorp decidedly refused anything of the sort, and told them that the bargain was that their privileges should remain as they were, and he would not

consent to any extension of them. To remove all possible doubts on the subject, a declaratory clause was inserted in the Bank Charter Act, expressly permitting joint-stock banks to be formed, provided they did not borrow, or take up in England, any sum or sums of money, on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof. This declaratory clause was not long in being acted upon; and soon after the Act was passed, measures were taken to constitute a joint-stock bank in London. This was the London and Westminster Bank, which has since been managed with such distinguished success.

"The enormous difficulties which must have attended the successful organization of this great establishment may be conceived when we remember that it was not formed under the Joint-Stock Banking Act at all, which had no force within sixty-five miles of London, but that it was nothing but an ordinary partnership at common law. One of the least of the inconveniences of this was that it could not maintain an action at law for the most trivial debt, without enumerating all and each of the partners, and the slightest mistake in the spelling of a single name would at that time have vitiated any proceeding. This bank was the largest common law partnership which has existed in England; and all the London joint-stock banks which were formed before the Act, Statute 1844, c. 113, are nothing but common law partnerships. The excessive inconvenience attending this state of things led to a bill being brought into Parliament to enable the London and Westminster Bank to sue and be sued in the name of its chairman. This was warmly opposed by the Bank of England, and by Lord Althorp. Nothing could be more paltry than the reasons alleged by him in opposition to it, but he was beaten by a majority of 141 to 35. The

Government, however, had influence enough to have the bill thrown out in the Lords. The Bank being thus defeated, adopted the plan of making all contracts through the medium of trustees, and all the London joint-stock banks had to adopt this plan, till the Joint-Stock Banking Act of 1844. The other banks formed on a similar plan to the London and Westminster, are, the London Joint-Stock Bank, founded in 1836; the Union Bank, in 1839; the London and County Bank, in 1839; and the Commercial Bank, in 1840, which afterwards wound up its business.

"A question, however, of very great importance soon arose. It was a settled question that no partnership or corporation consisting of more than six persons could accept bills at any less date than six months, no matter whether they were a banking partnership or any other. It was clear, therefore, that the bank could not itself directly accept bills. But it did not appear that the words of the Act prohibited *trustees* accepting bills for a less date on behalf of the company. Nor, if trustees could accept, was there anything to prevent them accepting by procuration. Consequently, there appeared to be this method open of circumventing the monopoly of the Bank of England. On the 21st of February, 1835, the Bank of St. Albans drew a bill for £25 upon the London and Westminster Bank, payable 21 days after date; which, on the 23rd, was presented for acceptance at the London and Westminster Bank, and was accepted in the following form:

Accepted,
At 36, Throgmorton-st, per procuration of
the trustees of the London and Westminster Bank,
J. W. GILBART, *Manager.*

"The Bank of England moved for an injunction to restrain the bank from accepting bills in this form, and

the case having been argued, the Court of Common Pleas held that it was an infraction of the Bank Charter Act of 1833, and the other Acts then in force respecting the Bank of England. Accordingly, the Master of the Rolls granted an injunction, restraining them from accepting bills at less than six months' date. The only result was, that the bank paid the bills drawn upon it without acceptance. The London and Westminster Bank being defeated in this manner, the London Joint-Stock entered the lists against the Bank of England in another form. It agreed with a bank in Canada, that the latter might draw upon Mr. George Pollard, who might accept in his own name, and the London Bank agreed to find the funds to meet Mr. Pollard's acceptances, and such transactions were to be matters of account between the two banks. Mr. Pollard was not a shareholder in the London Bank; but he was their manager, and the transaction was substantially an acceptance by the bank. The House of Lords, however, declared this ingenious device to be illegal, as it was merely doing indirectly what they were forbidden to do directly. Thus ended the attempts of the London joint-stock banks to free themselves from this monstrous oppression, from which they were not relieved till the Act of 1844.

"It was always held at common law that a man could not sue himself. Consequently, if the same individual was member of two partnerships, they could not go to law against each other. The consequence of this was, that no partnership could sue one of its members, or *vice versâ*, and if the same person had shares in two different banks, they could not have sued each other for any demands or debts. The Statute 1838, c. 96, was passed to remedy this anomalous state of matters. It enacted that a banking company might sue, or be sued, by any of its members,

exactly as if they were separate individuals; and by the Statute 1840, c. 111, this was extended to criminal cases, so that if a member of such a banking partnership steals or embezzles any property belonging to it, of any description, or shall commit any offence against it, he may be indicted, and convicted exactly as if he were a stranger.

"It being unlawful for spiritual persons to engage in any trading concerns, and such partnerships, of which any of its members were spiritual persons, being held to be void and illegal, it was suddenly found that most of the banking companies in England were illegal, and all their contracts void, because some of their shareholders were clergymen. The Act, Statute 1841, c. 14, was passed to remedy this, and declared that such partnerships should not be illegal and void; and that their contracts should not be illegal and void, although some of their shareholders were clergymen.

"When the impediments to the formation of joint-stock banks beyond sixty-five miles from London were removed in 1826, they were left perfectly free as to the provisions of their deeds of constitution, their nominal and their paid-up capital, and all the details of management, nor were they obliged to publish any accounts. The public, consequently, were perfectly in the dark as to the magnitude and position of the bank, because they might advertise that their nominal capital was £1,000,000, divided into any number of shares. But no one had any means of knowing how many of the shares were taken and paid upon. Consequently, although the capital of the bank might be advertised in the papers as £1,000,000, no one could tell whether it had *bonâ fide* £500 paid up.

"The first few joint-stock banks having been apparently successful, naturally turned speculation into that channel. Numbers of new banks were started in all parts of the

country, and many private bankers, fearing that the competition would be too powerful for them, united and formed themselves into joint-stock banks. The rapid growth of these establishments led to much mismanagement, and many disasters, as might have been expected, and Committees of the House of Commons were appointed to inquire into the subject in 1836-7 and 1840-1.

"The great abuses which were revealed in the course of these inquiries determined Sir Robert Peel, who was supposed to be the minister who *par excellence* understood banking, to bring in a bill to regulate the future constitution of these establishments. An Act, containing many elaborate provisions for this purpose, was accordingly passed, Statute 1844, c. 113. Fully admitting the enormous evils which this Act was intended to remedy, we will only say that a more unfortunate specimen of legislation, or one more entirely unsuitable to the nature of the business it related to, has not emanated from Parliament in recent times; and, being found to be an unmitigated nuisance, without any counterbalancing advantages, it was wholly repealed in 1857.

"We have already said that Sir Robert Peel's Joint-Stock Banking Act, Statute 1844, c. 113, was found to be wholly unsuitable for the purposes for which it was intended, and that it was totally repealed. This was done by the Act, Statute 1857, c. 49. The principal provisions of this Act are as follows:

"I. Every company formed under the Acts, Statute 1844, c. 113, or the Statute 1845, c. 75, were to register themselves before the 1st January, 1858, under the said Act, under severe penalties.

"II. Any banking company, consisting of seven or more persons, having a capital of a fixed amount, divided into shares also of a fixed amount, and legally carrying on the

business of banking before the passing of the Act, may register itself under this Act, and then all provisions of any Act, letters patent, or deed of settlement constituting or regulating the company, as are inconsistent with the Joint-Stock Companies' Acts, 1856, 1857, or with the said Act, are thereby repealed in regard to that Company.

"III. The above Banking Acts were then repealed as to any future companies, and as to existing companies, as soon as they were registered under this Act.

"IV. Seven or more persons might register themselves as a company, other than a limited company, under this Act, provided the shares into which the capital of the company is divided are not less than £100 each.

"V. The number of partners permitted in a private bank is extended to ten.

"The question of admitting the principle of limited liability into commercial partnerships in this country has long been debated with much acrimony. The old theory of the law was expressed by Lord Eldon, who said that a man who entered into a commercial partnership, rendered himself liable 'to his last shilling and his last acre' for the debts of the company. And this, no doubt, was true, as far as regards ordinary private partnerships. But many great companies had been formed and incorporated, in which the privilege of limited liability was specially conferred upon them. A principle may be good when applied to ordinary traders, who are supposed all to take an active part in the business, and to be each and all parties to every transaction. But in the case of great companies it is rather different. In them the great majority of the partners are specially debarred from all knowledge of the real nature of the transactions, which are expressly left in the hands of a small committee. Now, as there are many great objects in commerce which can only be carried out

by means of a great company, and it was obviously desirable that they should be carried out, it has long been the practice in granting Acts to these companies to limit the liability of the shareholders. This was done in the case of the Bank of England itself; in railway and other companies; also, almost universally, in the charters granted to Colonial banks. But for a very long time the application of this principle to private partnerships in England was vehemently resisted. However, this resistance was overcome in 1855, and in that year an Act was passed, Statute 1855, c. 133, to permit the formation of joint-stock companies with limited liability. However, although the principle was conceded as to other companies, joint-stock banks were still most jealously excluded, on account of some unintelligible distinction between their trading and other trading. In the Joint-Stock Banking Act of 1857 this exclusion was still strictly maintained. But the terrible examples of the failures of joint-stock banks in 1857 at last compelled the Legislature to yield, and in 1858 an Act was passed to extend limited liability to banks.

"The chief provisions of this Act, Statute 1858, c. 91, are:

"I. So much of the last mentioned Statute of 1857, as prevented banks being formed on the principle of limited liability, was repealed.

"II. All banks which issue promissory notes are subject to unlimited liability, as far as regards their notes, for which they are to be liable, in addition to the sum for which they are to be liable to the general creditors.

"III. Every existing banking company may register itself under this Act, upon giving thirty days' notice to each and all of its customers. Any customer to whom it may fail to send notice retaining his full rights as before.

"IV. All companies formed, or registering themselves, under this Act, must, on the 1st February and 1st August in each year, post up in a conspicuous place in its head office, and each branch, a statement of its liabilities and assets, made up in a form prescribed by the Act."

SECTION XXIX.

THE COUNTRY PRIVATE BANKS.

THESE banks cannot have more than ten partners. They are banks of deposit, of loan, and of discount. As banks of deposit they usually allow interest on both deposits and balances of current accounts, and charge a commission on the amount of the transactions. In commercial or manufacturing districts, their advances are usually made by way of discount; in agricultural districts, frequently by loans. They remit money by issuing bills or letters of credit on London, or they direct their agents to make payments to bankers or other parties resident in London. As banks of circulation, they have at various times occupied a large portion of public attention, and have been the subject of much legislation.

Those bankers who wish to issue notes, or unstamped bills of exchange, must take out a licence, which will cost £30, and must be renewed every year. They may re-issue any notes not above the value of £100 as often as they think proper. And should any of the firm die or remove from the business, the notes may be issued by the remaining partners. But they cannot be re-issued by a new firm which does not include any member belonging to the firm by whom the notes were first issued.

If the half of a note be lost or stolen, a banker cannot be compelled to give a new note in exchange for the remaining half. But if it can be proved that one half of a

note is burnt, or otherwise destroyed, then the holder may perhaps recover the note from the banker.

In such cases, the bankers always pay the value of the note on receiving a respectable indemnity.

Bankers may be compelled to pay whole notes that have been lost or stolen, provided the holder has given actual value for them in good faith.

The stamp duty on country notes is as follows:

	£	s.		£	s.	s.	d.	
Notes not exceeding	1	0	. . . . .			0	5	each.
Exceeding . .	1	0	and not exceeding	2	0	0	10	,,
Ditto . .	2	0	,, ,,	5	0	1	3	,,
Ditto . .	5	0	,, ,,	10	0	1	9	,,
Ditto . .	10	0	,, ,,	20	0	2	0	,,
Ditto . .	20	0	,, ,,	30	0	3	0	,,
Ditto . .	30	0	,, ,,	50	0	5	0	,,
Ditto . .	50	0	,, ,,	100	0	8	6	,,

Country banks are allowed to compound for the stamp duties on their notes, at the rate of three shillings and sixpence per cent. upon the half-yearly amount in circulation, and to include, on the same terms, their bills drawn on London at twenty-one days after date. But whether a country banker compounds for the stamp duties or not, he must once a week make a return to the Government of the daily amount of his notes in circulation. These returns are consolidated, and the result published in the "London Gazette."

I am not aware that we have any authentic details of the rise and progress of country banking in England. It is generally understood that very few country banks existed previous to the American war—that they rapidly increased after the termination of that war—that they received a severe check in the year 1793, when twenty-two became bankrupt, and that they increased with wonderful

rapidity after the passing of the Bank Restriction Act. Since the year 1808 every bank that issues notes has been compelled to take out an annual licence—and since 1804, the notes have been subject to a stamp duty. This duty was increased in 1808, and again in 1815.

In the year 1775 bankers were prohibited by Act of Parliament from issuing notes of a less amount than 20*s*. And in 1777 they were prohibited from issuing notes of a less amount than £5. But after the passing of the Bank Restriction Act in 1797, the last restriction was removed, and the country banks commenced issuing notes of £1 and £2. And in 1822 the permission to issue such notes was continued until the expiration of the Bank Charter in 1833. But after the memorable panic of 1825, the Government refused to issue any more stamps for notes under £5, and it was enacted that all such notes already stamped should cease to be issued by the bankers after the year 1829.

The speculations that preceded the panic of 1825 were attributed by the Government of the day to a wild spirit of speculation fostered by the country banks. To guard against the recurrence of similar evils, not only were notes under £5 abolished, but two other measures were introduced. Banks of issue, consisting of more than six partners, were permitted to be formed at a greater distance than sixty-five miles from London; and the Bank of England was induced to open branches in the provinces.

And here it will be proper to notice a peculiarity in the county of Lancaster, and particularly in Manchester and Liverpool. In these places there were no country notes, and but a small proportion of Bank of England notes. The circulation consisted mainly of bills of exchange, which passed from hand to hand like bank notes, having the endorsement of all the parties through whose hands they had passed. In Liverpool large notes were required to pay the

duties at the Custom House; and in Manchester small notes were required to pay wages. These were obtained from the Bank of England in London: but the transactions between manufacturers and dealers were transacted by bills of exchange; and as these bills were all made payable in London, bank notes were not required in Manchester and Liverpool, even for the payment of these bills.

The measures adopted by the Legislature in the year 1826 led to the establishment of branches of the Bank of England in Manchester and Liverpool. From this period the circulation of bills of exchange declined, and was superseded by Bank of England notes. This was accelerated by the circumstance that the joint-stock banks formed in these places did not issue their own notes, but those of the Bank of England. This establishment had offered to discount for the joint-stock banks at 1 per cent. less than they charged to the public, and the joint-stock banks thought it more for their interest to obtain the notes of the Bank of England on these terms than to issue notes of their own. The circulation of the country now consisted of notes of the branches of the Bank of England, notes of the joint-stock banks, and notes of the private bankers; and as many of the weak private banks had ceased to exist, and as others had merged into joint-stock banks, and as all notes under £5 were abolished, it was supposed that the country had now obtained the advantage of a secure circulation.

But in the latter end of the year 1836 another panic arrived, when it was discovered that the country circulation was again at fault. But the charge now was, not that it was unsafe, but that it was excessive; and this charge of having issued to excess was more especially directed against the joint-stock banks.

Here it may be observed, that in the panic of 1825 the amount of country notes in circulation was unknown. No returns at that time were made to the Government, and the amount of notes in circulation could only be calculated, and that very imperfectly, from the number of stamps, of different denominations, issued from the Stamp Office. But in the year 1833, the Chancellor of the Exchequer, Lord Althorp, obtained an Act (3 & 4 William IV, c. 83) which required all banks issuing promissory notes to make returns to the Stamp Office of the average amounts of notes in circulation in the quarters ending the first day of January, April, July, and October in each year. The quarterly average was to be formed from the amount in circulation at the end of each week. These quarterly returns were afterwards published in the "London Gazette."

From these returns it was evident that the country circulation had increased by the beginning of the year 1836; and as a general spirit of speculation prevailed at the same time, it was inferred that the country circulation was the cause of this speculation; and as by the end of the year the speculations had ended in panic, the country circulation was the cause of this panic.

Another panic occurred at the end of the year 1839, and here, again, blame was cast on the country notes. But the complaint now was not that the country circulation was unsafe or excessive, but that it was ill-regulated. An opinion had been adopted by some distinguished political economists that the country circulation, as well as that of the Bank of England, ought to correspond at all times with the amount of gold in the Bank of England. It is true that the circulation of the Bank of England did not fluctuate in exact accordance with this amount of gold; but the country circulation did not correspond even with that of the Bank of England. And as the fluctuations in

the country circulation did not correspond with the fluctuations either of the gold of the Bank of England or with the notes of the Bank of England, it was assumed that the country circulation was ill-regulated; and, being ill-regulated, it was assumed to be the cause, or at least one cause, of the panic that occurred at the end of the year 1839.

To examine into the truth of these opinions, a Committee of the House of Commons was appointed in the year 1840, to consider the state of the law with reference to Banks of Issue. The Committee examined witnesses during the sessions of 1840 and 1841; but the only practical result was that an Act was passed requiring weekly returns of their circulation from every bank of issue.[1]

Before proceeding farther, it may be fair to state the replies which the country bankers at various times gave to these severe accusations.

In reply to the charge that the currency was unsafe, from the number of failures which occurred among the country banks of issue, they state in their memorial to Earl Grey, in the year 1833, "the number of London bankers that have failed is believed to be relatively greater, and the amount of their debts relatively larger, than that of country banks."

In reply to the charge that they had by an excessive issue of their notes promoted speculation, they state:

"All experience shows that great fluctuations have originated in the speculations of influential merchants, and never originated in the channels to which the issues of country bankers are confined; their source is in great mercantile cities, and they are promoted by the issues of the Bank of England. That this is the invariable course which

[1] 4 & 5 Victoria, c. 50.

fluctuations resulting in excess and derangement take, is proved by the evidence of Mr. Ward and others, before the Bank Charter Committee, and is fully explained by the speeches of the King's Ministers in the year 1826. The debts of a few speculative merchants who failed in a single year in the town of Liverpool, where country bankers' notes never circulated, amounted to between seven and eight millions sterling, and their bills were either lodged in the Bank of England for loans, or were current in all parts of the country, stimulating circulation and promoting excess."

In reply to the charge that they had turned the foreign exchanges against this country, they reply:

"Your memorialists are prepared to prove that the issues of country bankers have less tendency to promote fluctuations in the country than those of the Bank of England; and that their effect in throwing the exchanges against the country is comparatively insignificant. The slightest attention to facts would indicate the truth of these positions. It has been established by parliamentary evidence that the issues of country bankers fluctuated much less between the years 1817 and 1826 than those of the Bank of England; and it is indisputable that adverse exchanges, which endanger the bank, always succeed great importations of foreign produce, and that they never can be occasioned by large exportations of domestic productions. Now, it is notorious that the circulation of country bankers acts almost exclusively in promoting these productions: and that, when it is in an extended state, the direct and proper influence, even of an alleged excess of that circulation, would be to provide the means of paying for the importations of foreign produce, without causing so great an export of gold as to derange and endanger the monetary system of the country."

In reply to the charge that they had not governed their issues of notes by the foreign exchanges, they reply that such a system is not applicable to the nature of a local circulation.

Then with respect to miners and manufacturers, any system which would bring them into immediate contact with the operation of the bank for regulating the foreign exchanges, without that protection and defence from those convulsive changes which the local circulation afford, would be a system pregnant with indescribable hazard.

Such was the state of the currency question when the late Sir Robert Peel came into office in the year 1841. The charter of the Bank of England was subject to renewal in the year 1844, and in that year was passed an Act of Parliament "to regulate the issue of bank notes, and for giving to the governor and company of the Bank of England certain privileges for a limited period."

The Act of 1844.

The charges against the country circulation had been that it was unsafe, excessive, and ill-regulated. The Act of 1844 dealt chiefly with the second of these accusations.

According to the provisions of this Act no new bank of issue was permitted to be established in the United Kingdom, and the maximum amount of notes which each existing bank of issue might issue upon an average of four weeks, should, after the 10th October, 1844, be the average amount of the notes in circulation during the twelve weeks ending the 27th April, 1844; that returns should be made to Government of the average amount of notes in circulation during each week; and if, upon an average of four weeks, the amount in circulation exceeded the authorized amount, the bank should be subject to a penalty equal to

the amount of that excess. That if any existing bank, not having more than six partners, should increase the number of partners to more than six, it should lose the privilege of issue. That if any two banks should unite so as to increase their number beyond six, they should lose the right of issue. And if any banker should become bankrupt, or cease to carry on the business of a banker, or cease to issue notes, it should not be lawful for such banker at any time thereafter to issue any such notes.

The charge of being unsafe the Act did not meddle with,—except so far as limiting the issues of each bank, and prohibiting any new bank of issue, may be regarded as elements of safety. But the Act of 1844 left the country circulation still unregulated by the amount of gold in the Bank of England. In the month of October, 1844, when the Act came into operation, the amount of gold in the Bank of England was £12,149,367. On the 23rd October, 1847, the amount of gold was £6,745,354, but the law required no corresponding reduction in the amount of the country circulation. On the 10th July, 1852, the gold had advanced to £21,845,390, but the law permitted to the country circulation no corresponding expansion. It does not, therefore, appear to have been the object of the Act that the country bankers should regulate their issues by the amount of gold in the Bank of England.

The maximum was the average of the twelve weeks ending 27th April, 1844, but there seems to be no reason why this period should have been chosen. Sir Robert Peel originally proposed that the maximum should be the average of the previous two years. The private bankers asked for the average of the previous five years. The joint-stock banks asked for the *maximum* of the two years, contending, that if an average were made a maximum, the circulation would be still further reduced. Sir Robert Peel

ultimately determined on the average of the twelve weeks previous to the announcement of the measures to Parliament. The respective amounts are as follows:

	Private Banks.	Joint-Stock Banks.
	£	£
Average of the two years . .	4,916,494	3,061,562
Average of the five years . .	5,761,792	3,485,329
Maximum of the two years .	5,295,239	3,752,867
Average of the twelve weeks as ultimately certified . . .	5,153,407	3,495,446

The private banks were at that time 205, and the joint-stock banks 72.

The enactments of the Act of 1844 affecting the country bankers are contained in clauses 10 to 22 inclusive. These clauses respectively enact that there shall be no new bank of issue; that there shall be restrictions against issue of bank notes; that bankers ceasing to issue notes may not resume; that existing banks of issue may continue under certain limitations; a provision for united banks; that a duplicate of the certificate to be given by the commissioners of stamps and taxes to issuing bankers, certifying the limit to which they may issue, shall be published in the "Gazette," and that the "Gazette" shall be conclusive evidence of such limit; that in case banks become united, the commissioners shall certify the amount of bank notes which each bank was authorized to issue; a penalty on banks issuing in excess; that issuing banks shall render accounts; the mode of ascertaining the average amount of bank notes of each banker in circulation during the first four weeks after the 10th October, 1844; empowers commissioners of stamps and taxes to cause bankers' books, containing accounts of notes in circulation, to be inspected, and imposes penalty on bankers for refusing to allow such inspection; that all bankers shall return their names once a year to the Stamp

Office; that all bankers liable shall take out a separate licence for every place at which they issue notes or bills, with a proviso in favour of bankers who had four such licences in force on the 6th of May, 1844.

The clauses, of which the foregoing are the headings, will be found in Section XXVI, and from a careful perusal of them it will be seen that the provisions of the Act require—

1. That no new bank of issue shall be established in the United Kingdom.

2. That the *maximum* of each bank of issue in England shall be the *average* of the notes in circulation during the four weeks ending the 27th April, 1844.

3. That if any bank having not more than six partners should exceed that number, it would lose its issue. This tends to prevent private banks merging into joint-stock banks.

4. That no union can take place between a joint-stock bank and a private bank, or between two joint-stock banks of issue, without one of them at least losing its circulation.

5. Every new branch at which notes shall be issued must take out a separate licence. Hitherto no bank had been obliged to take out more than four licences, however numerous its branches. This tends to check the opening of new branches of issue.

It has been stated that the object of this Act was to pave the way for the establishment of one bank of issue. These provisions are certainly not ill-adapted for such an end. They will reduce the amount of the country circulation; they will produce other ill effects; the formation of large banks will be retarded. In some places it would be for the public advantage that a private bank should become a joint-stock bank. In other districts it might be

desirable that two small joint-stock banks of issue should unite and form a large one. The restrictions imposed by this Act will tend to prevent such unions. Perhaps, in other respects, its effects may be beneficial; it may lead a larger number of persons to keep current accounts with bankers, and to make their payments with cheques. A smaller amount of notes will then be necessary for the purposes of the country. The advantages of having a banker will be extended to the middle and lower classes, and will not as much as heretofore be confined to the wealthy. The Act, too, may have the effect of exempting the banks of issue from those accusations to which they have always been subjected on the occurrence of any national calamity. The whole Act of 1844 is formed upon the notion that the country bankers can extend their issues as much as they please—an error that has over and over again been abundantly refuted. Yet had the bill not been passed, and had the country circulation increased a million or two, as possibly it might from the increased transactions of the country, the railway speculations of 1845 and 1846 would doubtless have been ascribed to the excessive issues of the country banks. The following language, which I addressed in 1844 to the joint-stock banks, may not be considered inapplicable to all banks of issue:

"Another advantage is, that the joint-stock banks of issue will be delivered from those unjust accusations to which they have hitherto been exposed. Almost every evil that has befallen the country for the last ten years has been ascribed by different writers to the reckless issues of the joint-stock banks; and though the charge has been oft refuted, yet such has been the talent, zeal, and perseverance with which it has been revived, that it has doubtless in some degree prejudiced the public mind.

But now this charge can be made no more. Our assailants are compelled to observe at least a ten years' truce. During this period we shall have no bank directors publishing pamphlets to show that their efforts to regulate the exchanges have been counteracted by the imprudent issues of the joint-stock banks. Our notes will not again be classed by the authors of 'prize essays' among the causes of national distress, and philosophical writers will no longer declaim, in eloquent metaphor, against 'the wild democracy of rival issuers.' It is no small matter to be put into a position wherein we shall be sheltered from the peltings of unjust accusations."

The other sections of the Act having special reference to country bankers are 23 to 25 inclusive, which provide for compensation to certain bankers named in Schedule C, for having ceased to issue their own notes under certain agreements with the Bank of England; for the Bank of England being allowed to compound with issuing banks in addition to those named in Schedule C; and that such compositions shall cease on the 1st August, 1856.

The Laws of the Currency with reference to the Country Banks.

These are thus stated in the article previously quoted in the "Foreign and Colonial Review" of April, 1844:

"It will readily occur to every reader, that the laws which regulate the circulation of these country banks must be different from those which regulate the London circulation of the Bank of England. They do not pay the public dividends; they cannot issue their notes in purchasing bullion, or Government stock, or Exchequer bills, as all these operations take place in London, where their notes do not circulate. They are also subject to

certain restrictive laws to which the notes of the Bank of England are not subject. Their notes are not only legally payable on demand, but payment is constantly demanded; while no one demands payment of a Bank of England note, unless he has occasion to export the gold. There is also a system of exchanges between country bankers, by which all notes that are paid into any of the banks are immediately brought back for payment to the banks that issue them. It is the practice, too, throughout the country, to allow interest on deposits; and thus all notes not required for the actual wants of the community are promptly withdrawn from circulation, and lodged with a bank upon interest.

"On inspecting the monthly returns of the country circulation for the last ten years, we find that the highest amount is in the month of April; thence it descends, and arrives at the lowest point by the end of August, which is the lowest point in the year. It gradually increases to November; a slight reaction takes place in December; but it then advances, until it reaches the highest point in April. The general law is, that the country circulation always makes one circuit in the year—being at its lowest point in August, and advancing to December, and continuing to advance to its highest point to the month of April, and then again descending to its lowest point in August.

"The laws which regulate the circulation of the country banks are derived from the state of trade in the respective districts in which the banks are established. As these banks are chiefly located in agricultural districts, the operations of agriculture have a very considerable influence in their regulation. Hence the advance in the spring, and the advance again after August, in consequence of the harvest. It is clear that the laws must be uniform in

their operation, because the fluctuations of circulation in each year are uniform, and constantly recur with the return of the season. The slight reaction in December is probably occasioned by the collection of the public revenues and of landlords' rents in the country districts, and the general dulness of trade in that month.

"It may also be observed, that the issues of the joint-stock banks, and of the private banks, are subject to the same laws. The issues of both classes of banks rise together and fall together, and they have maintained nearly the same *relative* amount during the last seven years.

"The laws which regulate the annual fluctuations of the country circulation, that is, which determine the variations in the amounts of the country circulation, not within the year, but taking corresponding periods of different years, are also dependent on the state of trade in those years. If there be an increase of trade without an increase of prices, more notes will be required to circulate the increased quantity of commodities. If there be an increase of commodities, and also an advance of prices, a still larger amount of notes would be required. There are also other circumstances that may permanently affect the amount of the country circulation."

Principles of the Country Circulation.

I cannot better state my own views of the principles of the country circulation, than by transcribing a portion of my evidence given before the Committee on Banks of Issue, in March, 1841, when examined by Sir Robert Peel:

"*Sir Robert Peel.*—Would you recommend that the paper thus issued should be convertible into gold at the will of the holder?—Yes.

"You think that is an absolutely necessary check against excessive issues?—I think it is a necessary check.

"What reference is made in the issue of paper to the quantity of gold in the country, and to the ultimate ability of the parties to discharge their paper engagements in gold?—The bankers in issuing their notes do not make any reference to the quantity of gold in the country, but they make reference to their ability to discharge those notes when returned to them for payment.

"What is the nature of the reference which they make?—By keeping securities available for the purpose of being sold, in order to discharge those notes whenever presented to them for payment.

"They have no reference whatever to the state of the exchanges?—No: when I say no, I mean not with the view of regulating the amount of notes by the exchanges; but bankers, whether banks of issue or not, notice the exchanges as naturally as they would notice the prices of the funds, in order that they may be able to judge as to the future value of money, so as to exercise their discretion with reference to their investments.

"They do not notice the state of the exchanges with a view to determine the policy of contracting or increasing their issues?—No; not with a view of making the amount of their issues correspond. If they see that the exchange is likely to become unfavourable, bankers will naturally be more cautious in making advances, and more cautious of coming under engagements, than they would be when they found that the exchanges were favourable; but there is no intention on the part of the country banks to make their notes correspond with the amount of the bullion in the Bank of England.

"A country banker would rely upon the sale of his securities, and that only in case of a demand for gold?—In

case of a general run, he would depend upon the stock he had in hand, and the further stock he might realize by a sale of securities.

"If all parties continued to issue, none of them having reference to the state of the exchanges, but relying upon the available resources which a sale of securities might supply, do not you think that there might be a danger of a sudden demand for gold, and of an inability on the part of those issuers to discharge their engagements in gold?—I do not think there would be any danger of that at all, because each bank would take care of itself. If you suppose that the whole circulation of the country comes in at once and demands gold, it is quite clear that gold cannot be found to pay it off, and that is equally the case with the Bank of England and any other bank, and it is equally the case with us who are banks of deposits. If all the depositors were to come together at the same time and require their deposits, we should be unable to pay them; but we could realize our securities, and pay them off, if they were to come gradually.

"Suppose there was one bank which had the charge of the paper circulation of the country, and had the means, therefore, by constant reference to the state of the exchanges, of determining the amount of the paper circulation, do not you think that there would be a greater security against a sudden demand for gold, and an inability to pay that gold, than there is when there are a great many issuers, none of whom, according to your own statement, pay the slightest regard to the state of the exchanges?—No, I think not.

"What then supplies the check?—The check upon the private bankers is, that their circulation cannot be issued to excess; whereas if you had a bank which should issue notes for so much gold, then every time there was a favour-

able course of exchange, there would be a large issue of notes, which notes would necessarily reduce the rate of interest, lead to speculation, and turn the exchanges again by causing investments to be made in foreign countries. Now, as issues are at present conducted, bankers are under several checks which would not apply to such a bank. For instance, the check of the interchange with each other of their different notes once or twice a week, and the check of having their notes payable on demand; whereas the notes of such a bank as you suppose would not be diminished except when gold was wanted to be sent abroad. Another check is the practice of giving interest upon deposits, by which all the surplus circulation is called in and lodged with the banks. Now, such a bank as you have supposed would not be under the control of those checks, and it would be under the necessity of increasing the circulation whenever the exchange became favourable; and we know by experience, that the most sure way of making the exchanges unfavourable is a previous excessive issue; that previous excessive issue would necessarily arise, on the principle you have supposed, every time the exchange was favourable.

"You think that there is some cause in operation which applies equally to all issuers of paper, and prevents any undue issue of paper, and dispenses with the necessity of any reference on the part of each issuer to the state of the exchanges?—That is the case with all country issuers of paper. With regard to the Bank of England, who have the power of issuing their notes in exchange against bullion, in the purchase of Exchequer bills and Government stock, it is quite clear that notes put into operation in that way, being thrown in a mass upon the previously existing state of trade, will have the effect of raising prices and reducing interest, and turn the exchanges; but if notes are

issued merely to pay for transactions that have previously taken place, and are drawn out by the operations of trade, those notes will have no such effect.

"Supposing, at present, the Bank of England observed that the exchanges continued unfavourable for a long period, and that there was a progressive diminution in the amount of their bullion, and supposing that they saw that in the course of two years their bullion was reduced from ten millions to four millions; do you think it would be desirable that the Bank of England should take any step whatever to guard against the ultimate consequences of that state of things by restricting the paper circulation?—I think such a case may occur, but I think in ordinary times the Bank of England might hold foreign securities, by which they would bring back gold to this country, and thus prevent any necessity for a contraction of the circulation. At the same time, I do not at all question the possibility of such a case occurring as may render a contraction necessary; nor do I at all question the influence of a contraction to have some effect upon the exchanges; but I contend that, as an ordinary principle of action, the bank ought not to expand their circulation, so as to cause the exchanges to be unfavourable, nor calculate upon a contraction of the circulation for the purpose of remedying the exchanges.

"Then you do think that the expansion of the circulation of the Bank of England may cause unfavourable exchanges?—Yes.

"Why should not the expansion of the circulation on the part of the country issuers produce the same effect?—Because the country circulation is under checks, whereas the Bank of England circulation is not; the country circulation can be issued only in consequence of transactions which have taken place, and to the extent only required

by the wants of the district; whereas it is obvious that the Bank of England has the power of increasing the circulation by the purchase of Exchequer bills or stock, or by purchasing bullion, and throwing a mass of notes on the market when the state of trade does not require them."

"*Chairman.*—Have you any further observations to make to the committee?—When the first question was asked of me, at the commencement of my examination, I stated that I appeared before the committee as the representative of the joint-stock banks, and that, therefore, in expressing any opinions consistently with the resolutions which they had passed, I wished to be considered as speaking the sentiments of the joint-stock banks; but, should the committee ask me any question not connected with the circumstances of country issues, that I wished to be considered as speaking my own individual opinions. The points upon which I wished to be considered as speaking the sentiments of the joint-stock banks are as follows: I speak the opinions of the joint-stock banks in saying that their circulation cannot be made to fluctuate in exact conformity with the circulation of the Bank of England, or with the stock of gold in the Bank of England; that the country issue is drawn out by the demands of trade, and is subject to checks to which the circulation of the Bank of England is not liable; that the country bankers have not the power of issuing their notes to excess; that they cannot contract their circulation or expand it as they please; and also, that the country circulation does not influence the prices of commodities, and that it cannot be regulated by the principles of the foreign exchanges. I speak the opinions of the joint-stock banks when I say, that the abolition of the country circulation would cause very considerable distress; would limit the power of the

country banks to grant the same accommodation to their customers; would compel many of their customers to sell their property, thus lessening the value of real property; that country bankers would be compelled to increase their charges to their customers; and, in some cases, that those banking establishments would be altogether abolished, in consequence of not being able to supply sufficient profit for carrying them on; that, in some other cases, however the country circulation might be substituted or superseded by a bill circulation, nevertheless considerable distress would exist throughout the country, and that not only country banks themselves, but their customers and the public in general, would be subject to very considerable loss and inconvenience. In other opinions which I have expressed with regard to the regulation of the currency, and the principles upon which the Bank of England ought to be managed; also, as regards the extracts which have been made from my own works, and other matters I need not particularly specify, I wish to be understood as giving my own opinions, without saying whether those opinions do or do not meet the concurrence of the joint-stock bankers. I take the responsibility of these entirely upon myself."

Notes under Five Pounds.

The most important circumstance in which the banks of Scotland and Ireland differ from those of England, is in their power to issue notes under £5. That portion of our currency in England which is under £5 consists of gold and silver coin. And it may, under present circumstances, be worth while to inquire—suppose we should have a protracted war, and be compelled to export our gold, either to subsidize foreign powers, or to maintain our fleets and armies abroad, what additional supply of gold could we

obtain by means of issuing £1 notes? I do not think we can get any certain reply to this question; but there are some inquiries that may assist our reasonings on the subject. First, we may inquire, when the Bank of England issued small notes, what proportion did the notes under £5 bear to the amount of the whole circulation? That establishment issued such notes from the year 1797 to the year 1821. We find that the highest proportion was in the years 1815 and 1816. On the last day of February in those years the circulation stood thus--

	Notes under £5.	Notes of £5 and upward.	Total Circulation.
	£	£	£
1815 . . .	9,035,250	18,226,400	27,261,650
1816 . . .	9,001,400	18,012,220	27,013,620

Here we find that the notes under £5 were about half the amount of those of £5 and upwards. This was in 1815 and 1816, when the notes were issued only in London. Supposing, therefore, in round numbers, that the Bank of England circulation is now £20,000,000, then in the same proportion it might maintain a circulation of £10,000,000 of small notes. But we must remember that during the last sixty years the population, the trade, and the wealth of the nation has vastly increased. And if pecuniary transactions were conducted in the same way, the notes in circulation must have increased in proportion. But, in consequence of the more general use of bills of exchange, the extension of banking accounts, the more frequent exchanges between country bankers, and the operations of the Clearing House in London, a smaller amount of bank notes is now necessary. All large transactions are now settled, not by notes, but by bills and cheques and transfers. But these banking facilities which diminish the demand for large notes do not in the same proportion

diminish the use of small notes. On the contrary, from the great increase in the labouring population, and the consequent increased extent of retail trade, the demand for small notes to pay wages and to settle small transactions must, during the last sixty years, have greatly increased. Seeing, then, that the demand for large notes has diminished, and the demand for small currency has increased, it seems reasonable to suppose, that were the Bank of England now to issue small notes, the amount in circulation would bear a higher proportion to the large notes than was the case sixty years ago.

I have already stated that we have no returns of the amount of the country circulation previous to the year 1833. But we have the number of notes stamped of different denominations, and we find that in the years 1820 to 1825, the amount of notes stamped under £5 varied from 37 to 50 per cent., making an average of 44 per cent. of the whole circulation. This makes the small notes nearly equal in amount to the large ones. But here again it is probable that the small notes remained out longer than the large ones. A greater proportion of the large notes were probably in the banker's till, and a larger proportion of the small notes in the hands of the public. It seems probable, therefore, that the amount of small notes in active circulation was usually higher than the amount of large notes. And if the Bank of England, whose issues were made only in London, and whose circulation was chiefly in London and Lancashire, maintained one-third of its circulation in small notes, it seems likely that the country banks, whose notes were issued in almost every town and village in the country, would maintain a much higher proportion than even one-half.

If we look to the present state of the circulation in Ireland and Scotland, we shall find that the small notes

form the larger proportion, and the amount furnishes no confirmation of the doctrine that small notes diminish in wealthy countries. Scotland is a wealthier country than Ireland, yet has a larger proportion of small notes. And the north of Ireland is wealthier than the south, yet the banks of Belfast have a larger proportion of small notes than the banks of the south.

From the former circulation of the Bank of England, the stamps issued to the country bankers, and the present circulation of Scotland and Ireland, we have then materials for forming an opinion as to the amount of small notes that might be maintained in circulation in England; and though we cannot fix the amount with that precision which the science of statistics requires, yet after putting the facts and reasonings together, we seem warranted in drawing the conclusion that the amount would not be less than thirty millions; and, consequently, we have the power, when necessary, of releasing from their present duties thirty millions of sovereigns, and employing them for national purposes elsewhere.

Suggestions on the Country Circulation.

It is not my object to examine here any of the enactments of the Act of 1844 that have a reference to the Bank of England; but when the subject is brought under consideration, means should be employed to obtain some modification of those clauses that have a reference to the country banks. The country circulation should be preserved in its integrity—should be rendered capable of expansion, so as to meet the demands of a more numerous population, extended commerce, higher prices, and increased taxation—its issues should be allowed to be regulated by the demands of trade and agriculture in the

respective districts in which the banks are established, and should be rendered as much as possible free from the operation of the foreign exchanges.

We find that in 1844, when the country circulation had greatly declined, we took the actual circulation of the then existing country notes, and made it a maximum circulation—an arrangement which, necessarily, from the fear of incurring penalties, reduced the amount of the actual circulation below the maximum. We apply this maximum to a circulation that fluctuates very much in different parts of the year. If, then, we keep below the maximum in April, we necessarily fall much lower in August. We divide this maximum among 277 banks, and impose heavy penalties upon every one that shall exceed his portion of the maximum,—a circumstance that tends to reduce still farther the actual circulation. No one is forbidden to reduce his issue as low as he pleases; and if he abandons it altogether, only two-thirds can be supplied, and that by permission of the government; and then only upon the application of a bank whose head-quarters are in London, who is to get nothing by the operation, and whose issues are governed by laws which have been declared by the country bankers to be inapplicable to the operations of a local currency, and unsuitable to the requirements of domestic industry. This maximum must never be exceeded, while those banks that previously issued Bank of England notes are not allowed to resume their own circulation, and no new bank of issue is allowed to be established. The result of this arrangement has been, that an authorized issue in 1844 of £8,648,853 is now reduced to an authorized issue of £7,942,466,[1] and that the actual circulation is generally below £7,000,000, and has been below £6,000,000;

[1] The total amount of this country authorized issue on August 4th, 1906, was £1,582,184 and the actual circulation about £510,000.

while every banker, in certain seasons of the year, has been compelled to watch the issue of his notes, lest he incur those enormous penalties which attend even the accidental violation of the Act.

In endeavouring to remove those inconveniences, we would be governed by a regard to the spirit of the Act of 1844, and attempt only to correct its practical defects. Among the modifications that may be suggested, perhaps the following may deserve a special consideration:—That the present maximum which applies to an average of four weeks should apply to an average of twelve months;—that all the banks who had formed agreements with the Bank of England, and whose compensation ceased in 1856, should be allowed to circulate their own notes to the amount to which they had circulated Bank of England notes;—that the country circulation should not be less than the amount fixed by the Act of 1844, and that the deficiency of £706,387,[1] which has since taken place, should be redistributed among the country banks (whether at present issuing or non-issuing), in the district in which the deficiency has taken place;—that we adopt the enactments of Scotland and Ireland, by allowing the existing banks of issue to extend their issues beyond their fixed amount, provided they have gold, either at the head office or at any of the branches,[2] equal to the amount of the excess; and as Bank of England notes are a legal tender in England, and can be converted into gold upon demand, they might in this instance be placed upon an equality

[1] This deficiency now amounts to more than £7,000,000.

[2] The Act of 1845, in reference to Ireland, is imperfect in this respect. The Provincial Bank of Ireland, for instance, can issue notes against gold held in Dublin, Belfast, Limerick, and Cork, but not against gold held at any of the other branches. There seems to be no reason for this distinction.

with gold;—that banks of issue be permitted to continue their fixed issue in the same locality, even should they increase their partners to a greater number than six; and that this regulation be made retrospective, so as to include all unions of banks of issue with other banks that have taken place since the year 1844; and further, that we adopt the law of Scotland and Ireland, by allowing two or more banks of issue, whatever may be the number of their partners, to unite and to retain the united amount of issue of all the united banks. With reference to the issue of notes under £5, we think that is a question for the consideration of statesmen, and its adoption must depend upon the political circumstances of the country. As long as Australia can supply us with gold sufficient to meet our foreign requirements and to maintain our domestic currency, probably we had better remain as we are. At the same time it may be useful to know, that in case of necessity, we have here a magazine from which we may draw a large supply of the sinews of war.

SECTION XXX.

THE SCOTCH BANKS.

IN this section we shall consider the following topics:

I. The Law of Scotland with reference to Banking.

II. A Comparison between the Banks of Scotland and those of England.

III. The Laws of the Currency with reference to Scotland.

IV. Those operations of the Scotch Banks that refer to the system of Cash Credits, Interest on Deposits, and the settlement of the Exchanges.

I.—*The Law of Scotland with reference to Banking.*

The following is the language of the Report of the Committee of the House of Commons, appointed in 1826 to consider the expediency of abolishing all notes under £5:

"There is no limitation upon the number of partners of which a banking company may consist; and, excepting in the case of the Bank of Scotland, and the two chartered banks, which have very considerable capitals, the partners of all banking companies are bound jointly and severally, so that each partner is liable to the whole extent of his fortune for the whole debts of the company.[1]

[1] With the exception of the three old chartered banks, the Bank of Scotland, the Royal Bank of Scotland and the British Linen Company, all the Scotch banks have now registered under the Companies Acts with limited liability.

"A creditor in Scotland is empowered to attach the real and portable, as well as the personal estate of his debtor, for payment of personal debts, among which may be classed debts due by bills and promissory notes; and recourse may be had for the procuring payment to each description of property at the same time. Execution is not confined to the real property of a debtor merely during his life, but proceeds with equal effect upon that property after his decease.

"The law relating to the establishment of records gives ready means of procuring information with respect to the real and heritable estate of which any person in Scotland may be possessed. No purchase of an estate in that country is secure until the seisine (that is, the instrument certifying that actual delivery has been given) is put on record; nor is any mortgage effectual until the deed is in like manner recorded.

"In the case of conflicting pecuniary claims upon real property, the preference is not regulated by the date of the transaction, but by the date of its record. These records are accessible to all persons; and thus the public can with ease ascertain the effective means which a banking company possesses of discharging its obligations, and the partners in that company are enabled to determine with tolerable accuracy the degree of risk and responsibility to which the private property of each is exposed.

"There are other provisions of the law of Scotland which it is not necessary minutely to detail, the general tendency of which is the same with those above mentioned."

"The following Acts of Parliament have been passed in reference to banking in Scotland:

"The first notice of banking in Scotland which occurs in the statute-book, is an Act of King William the Third,

passed in the year 1695, under which the Bank of Scotland was established. By this Act an exclusive privilege of banking was conferred upon that bank, it being provided, 'that for the period of twenty years from the 17th July, 1695, it should not be lawful for any other person to set up a distinct company or bank within the kingdom of Scotland, besides those persons in whose favour this Act was granted.' No renewal of the exclusive privilege took place after the expiration of the twenty-one years.

"The Bank of Scotland first issued notes of 20*s.* in the year 1704; but the amount of notes in circulation previous to the Union was very limited.

"The Bank of Scotland continued the only bank from the date of its establishment in 1695, to the year 1727.

"In that year a charter of incorporation was granted to certain individuals named therein, for carrying on the business of banking under the name of the Royal Bank; and subsequent charters were granted to this establishment, enlarging the capital, which now amounts to one million and a half.[1]

"An Act passed in the year 1765, is the first and most important Act of the Legislature which regulates the issue of promissory notes in Scotland.

"It appears from its preamble, that a practice had prevailed in Scotland of issuing notes which circulated as specie, and which were made payable to the bearer on demand, or payable at the option of the issuer at the end of six months, with a sum equal to the legal interest from the demand to that time.

"The Act of 1765 prohibits the issue of notes in which such an option as that before mentioned is reserved to the issuer. It requires that all notes of the nature of a bank

[1] The paid-up capital of the Royal Bank of Scotland now amounts to two millions.

note, and circulating like specie, should be paid on demand; and prohibits the issue of any promissory note of a sum less than 20*s*.

"With respect to the issue of promissory notes in England, an Act was passed in 1775, prohibiting the issue of any such notes under the sum of 20*s*. And in the year 1777, restraints were imposed by law on the issue of notes between the sum of 20*s*. and £5, which were equivalent to the prohibition of such notes circulating as specie.

"In the year 1797, when the restrictions as to payments in cash were imposed upon the Bank of England, the provisions of the Act of 1777, with regard to the issue of notes between 20*s*. and £5, were suspended. By an Act passed in the third year of his present Majesty, the suspension was continued until the 5th of January, 1833; but now stands limited, by an Act of the present session, to April 5, 1829."

"The general result of the laws regulating the paper currency in the two countries is this:

"That in Scotland, the issue of promissory notes payable to bearer on demand for a sum of not less than 20*s*. has been at all times permitted by law, nor has any Act been passed limiting the period for which such issue shall continue legal in that country. In England, the issue of promissory notes for a less sum than £5 was prohibited by law from the year 1772 to the period of the bank restriction in 1797. It has been permitted since 1797; and the permission will cease, as the law at present stands, in April, 1829."

The Act which now regulates the issue of bank notes in Scotland is 8 & 9 Vict., c. 38, passed in the year 1845.

By this Act, the power of issuing notes is confined to those banks that issued notes in the year preceding the 1st day of May, 1845. And the amount to which each

bank may issue is not to exceed the average amount of notes it had in circulation during the year ending the 1st of May, 1845, and the amount of gold or silver coin it may at the time have in possession at the head office or principal place of issue, in the proportion that the silver shall not be more than one-fourth the amount of the gold.

This Act was to come into operation on the 6th day of December, 1845. After which day each banker is to make weekly returns to the Stamp Office of his notes in circulation, and of the gold and silver coin on hand; and the averages of four weeks are to be published in the "London Gazette," with a certificate from the commissioner as to whether the bank has held the amount of coin required by this Act.

Bank of England notes are not to be a legal tender in Scotland.

In the Acts of Parliament passed in 1844 and 1845 for Regulating Banks of Issue in England and in Scotland, we may observe the following differences:

1. The maximum of the circulation in England is the average of the twelve weeks ending the 27th of April, 1844. The maximum in Scotland is the average of the year ending the 1st day of May, 1845.

2. The English banks are not, under any circumstances, allowed to exceed the fixed limit. The Scotch banks are allowed to exceed their limit, provided they hold in their coffers at the head office an amount of gold and silver equal to such excess.

3. In England, should two joint-stock banks of issue effect a junction, the circulation of one of them would be forfeited,[1] and the united bank could issue only to the

[1] There is no express provision in the English Act with reference to the junction of two joint-stock banks. We consider that only one of the banks would lose its issue, *provided* the continuing

amount which the other bank had previously issued. In Scotland, the united bank is allowed to issue to the amount of the two circulations added together.

4. In Scotland, notes under £5 are still permitted. In England, notes under £5 are still prohibited.

II.—*A Comparison between the Banks of Scotland and those of England.*

The differences between the English and the Scotch banks are the following:

1. The Scotch banks are all joint-stock banks. In England there is a mixture of joint-stock and private banks.

2. The Scotch banks are all banks of issue. In England there are many, both private and joint-stock banks, that are not banks of issue.

3. The Scotch banks all have branches. In England most of the private banks, and some of the joint-stock banks, have no branches.

4. The Scotch banks universally grant interest on the balance of current accounts[1]—a practice not universally adopted in England, especially in London.

5. The mode of making advances by way of "cash credit" is general in Scotland, but exceptional in England.

We may also observe some other differences, chiefly of a

bank retained its original title, so as not to create a new bank. But if by the union a new bank should be formed, then both the banks would lose their issues. In the same way, we think that the union of an issuing and a non-issuing bank would cause no change in the issue. But then the new bank must retain the title of the old issuing bank. Its right of issue would not be affected by taking new directors or new shareholders.

[1] It is no longer the custom of the Scotch banks to allow interest on current accounts.

business character, which have an important bearing on the interest of the community.

1. The banks of Scotland have generally a large paid-up capital.

"Two great errors appear to have been committed in the formation of joint-stock banks in England, and, until these are remedied, such establishments can hardly expect to reach a higher degree of importance or credit than is attainable by a wealthy private bank. These evils are, in the first place, too small a capital relatively to the extent of business undertaken; and, in the next place, the circumstance of the issues of the joint-stock banks being left uncontrolled by any effective system of *exchange*.[1]

"The advantage of a small capital in banking is, that it enables the establishment, if at all successful in business, to pay a large dividend. The profits of banking depend, in a great measure, on the amount of deposits and circulation, and, according as these are great or small compared with the extent of the capital, will the company be enabled to divide a larger or a smaller dividend. It therefore becomes the obvious policy of those establishments, the managers of which conceive that the success of a bank is proved by the early payment of a high dividend, to keep the capital of the company within the narrowest possible limits. This system has been carried to the utmost extreme in England; and hence, although large dividends have been paid to the shareholders, there has been no corresponding increase of confidence on the part of the public.

"The Scotch banks, on the other hand, have pursued a directly opposite course. Their object has been to secure

[1] The capital of English Joint Stock banks no longer compares unfavourably with that of the Scotch banks, while the note issue is now in most cases insignificant compared with other liabilities.

public confidence by the extent of their capital, and they have continued to pay moderate dividends to their shareholders, until justified in augmenting them by years of success, and a large accumulated sinking-fund. So well, indeed, is this system understood, and so completely has it attained its purposes, that the slightest appearance of improvidence displayed by a Scotch joint-stock bank, in fixing the amount of its dividend, has been invariably attended with a decrease of the public confidence in the stock of the establishment. In this manner public confidence has been secured, the value of Scotch bank stock has risen in the market, and the shareholders have received their extra profits as a *bonus*, or in the increased value of their own shares. Thus, instead of being looked upon as establishments aiming at the ephemeral advantage of making a large dividend, for stock-jobbing or temporary purposes, our banks have almost invariably assumed the character of permanent national establishments, identified with the prosperity of the country, and, by means of their small-note circulation, conferring benefit on, as well as obtaining the confidence of, every class in the community."[1]

2. In operating on his current account, it is not the general practice in Scotland for a customer to draw cheques[2] on the bank for his individual payments, nor to accept bills payable at the bank. If he has to make twenty payments in the course of the day, he will go to the bank

[1] "Letter to James William Gilbart, Esq., on the Relative Merits of the English and Scotch Banking Systems; with Practical Suggestions for the Consolidation of the English Joint-stock Banking Interest." By Robert Bell.

[2] This custom is very much modified now; the system of passing cheques having become almost universal, a daily clearing has been instituted.

in the morning, and draw out in one sum a sufficient amount of notes to make all these payments. On the other hand, if a customer should receive money from twenty different people in the course of the day, he will not receive cheques, as there are none in circulation, but bank notes, which at the close of the day he will pay in one sum into the bank. In England all these receipts and payments would be made in cheques, each having probably odd shillings and pence. From this cause, the trouble and expense to a bank of conducting a current account is much greater in England than in Scotland.

3. The system of numerous branches leads to uniformity all over Scotland in the terms on which business is transacted in the banks.

From the small number of banks that existed for many years in Scotland, and from the circumstance that the head offices of most of these banks were fixed at Edinburgh, it was easy for them to form arrangements among themselves for the regulation of their business. Hence arose a uniformity of practice among all the banks, and throughout the whole of Scotland.

This uniformity does not exist in England. The system of London banking is different from that in the country. And the banking of one district differs from that of another district. It would be difficult to produce any general union in England, even among the joint-stock banks. There is a difference in the character of their localities. Their head offices are too wide apart to admit of frequent personal communication. And it may be feared that among the joint-stock banks of England there is not enough of that *esprit de corps* which is essential to the existence of a general confederation.

There is, however, considerable competition among the banks of Scotland. This rivalry, however, does not lead to

transacting business on lower terms.[1] Indeed, these terms are always very moderate. The difference between the rate of interest allowed and charged is rarely more than one per cent. No commission is charged on current accounts; and it is only recently, we believe, that commission has been charged on the amount (not the operations) of cash credits. Sometimes the banks at Glasgow, when there is a great demand for capital, have been disposed to grant a higher rate of interest than the banks of Edinburgh; but this difference has soon been arranged. The provincial banks, too, have carried on a strong opposition against the branches of the Edinburgh banks. The late Thomas Kinnear, Esq., when asked what had led to the discontinuing of some branches of the Bank of Scotland, replied:

"With respect to those that are beyond my memory, I cannot say what was the cause; but those that have been given up within my recollection, in point of fact were given up in consequence of the town in which that branch had originally been established having accumulated wealth to such a degree that it could afford a banking capital of its own, and that it had in point of fact established a local bank; then the connection of that local bank went so strongly against us by fair competition, that we found we could employ our capital to better purpose elsewhere, and gave up the branch."[2]

[1] The banks have entered upon an agreement to maintain a uniform scale of charges for commission, exchange, &c., and meet from time to time to settle the rates of discount and interest—these being regulated by the rise and fall in the Bank of England rates.

[2] Commons, 132, Kinnear.

III.—*Laws of the Currency in Scotland.*

In Scotland the lowest point of the circulation is in March, and the highest in November. The advance, however, between these two points is not uniform—for the highest of the intervening months is May, after which there is a slight reaction; but it increases again until November, and falls off in December. The reason of the great increase in May and November is, that these are the seasons for making payments. The interest due on mortgages is then settled, annuities are then paid, the country people usually take the interest on their deposit receipts, and the servants receive their wages. There are frequently large sums transferred by way of mortgage. It is the custom of Scotland to settle many transactions, large as well as small, by bank notes—not by cheques on bankers as in London. It is remarkable that these monthly variations occur uniformly every year, while the amount of the circulation in the corresponding months of different years undergoes comparatively little change.

The circulation of Scotland is at its lowest point in the month of March, is higher in July, and reaches its highest point in November. In the corresponding months of different years there is but little deviation in the amount of the circulation. These facts prove that the circulation of Scotland does not produce any effect upon prices, nor, consequently, upon the foreign exchanges. It is hardly necessary to adduce evidence in proof of the fact that the prices of commodities do not go on increasing from March to November in every year; and if they do not they cannot be regulated by the currency. This regularity in the circulation shows that it must be governed by some uniform laws, arising from the local circumstances or habits of the country; and this, we think, will always be the case where

the banks are passive, and permit themselves to be operated upon by the wants of the trade and commerce carried on in their respective districts.

Though the Act of 1845 does not appear to have had much effect on the laws of the currency, it has had an effect in other ways. It has required the Scotch banks to keep a larger amount of gold in their vaults.

It has also had the effect of inducing the banks to increase their charges, and to decrease the granting of cash credits. The banks are required to keep in their coffers a larger amount of gold. This increased amount yields no interest, and hence to that extent the Act diminishes their profits. To make up the same amount of profit as heretofore, the charges for discounts and advances are increased. This illustrates a principle that we think will always be found correct, that *restrictions upon banks are taxes upon the public.* This principle is not sufficiently obvious to statesmen, nor even to the public, in England; the mercantile classes have been pleased, rather than otherwise, when laws have been passed injurious to bankers. In Scotland such matters are better understood. The commercial classes have always rallied round the banks; they have had the sagacity to perceive the truth of the principle we have advanced; they know that capital employed in banking must be made to produce an average profit; and if the Legislature causes one branch of business to be less productive, the bankers must make other branches more productive, in order to render capital employed in banking as profitable as it would be if employed in other occupations. But the Act of 1845 not only increased the charge; it led to a limitation of accommodation. There is no one point on which Scotchmen, of all classes, are more unanimous in opinion, than on the advantages that have arisen to their country from the system of cash credits. This system can

exist only with a note circulation. One of its objects on the part of the banker is to increase his circulation. But he has no profit by increasing his circulation of notes, if he must keep in his coffers an additional amount of gold equal to that increase. But gold is the idol of our currency theory. The cash credit system, therefore, with all the virtues it produced, has been offered up in sacrifice to this "golden calf."

The Act has, however, not been successful in imparting to the people of Scotland a taste for gold. The bankers are too wise to issue the gold, unless when it is demanded; and the public are too wise to make such a demand. Hence, when the increase of the currency requires a further importation, the gold is quietly brought from London to Edinburgh, is quietly locked up in the vaults of the bank, and, when no longer required, as quietly sent back again. Of course this is a loss to the banks of issue, but in this way it is less injurious than if put into circulation. Disastrous for Scotland will be the day when the people shall become inoculated with the love of a gold currency. The effect of such a desire in England is strikingly exhibited in seasons of pressure. When such pressures occur in Scotland, the banks, unlike those of England, can employ their whole resources to assist their customers, and to support public credit.

Among the theories on the currency was a notion of establishing one bank of issue for the United Kingdom. The following evidence on this subject was given by Mr. Kennedy, the manager of the Ayrshire Bank, before the Committee on Banks of Issue, in 1841:

"Do you think the establishment of a single bank of issue for the United Kingdom would be advantageous or otherwise to Scotland?" . . . . "I conceive that it must be very destructive to Scotland."

"In what way?" . . . . "It is perfectly clear that it would overturn the present system of banking in Scotland. Our system of banking is based upon the power that our currency gives us to allow a high rate of deposit interest. If you take from us the profit that our currency yields, we must make our profit from some other source; we must increase the charges to the community, and allow less interest, or probably no interest at all, and our system will be totally changed."

Another favourite notion has been the abolition of all notes under £5. A Committee of the House of Lords and a Committee of the House of Commons made reports on this subject in the year 1826. The evidence produced by the Scotch bankers was so overwhelming, that both the committees recommended the postponement of the measure. Robert Paul, Esq., Secretary to the Commercial Bank of Scotland, stated to the Committee of the House of Lords that the following would be the effects of the abolition of the small notes:[1]

"We should diminish the number of our branches, because we should be involved in an expense in the transmission of gold, which the profits arising out of our branches could never compensate; they are not the most profitable part of our business; they are attended with a great many hazards and disadvantages.

"We should withdraw our cash accounts, because they could no longer accomplish the end for which they were granted, which was the maintaining our circulation, especially of our small notes.

"We should diminish the interest of our deposit accounts, because we should then be required to keep a very large amount of dead stock of gold in our coffers to meet the

[1] Lords' Report, p. 204.

constant variations that would arise, and to keep it wholly unproductive. I imagine that if a gold currency were substituted for a small-note currency, there would be a much greater amount of gold required than there is at present of notes. We have at present, in order to meet the constant variations, a large amount of notes constantly on hand, and in the same way we should require a stock of gold, and that would be proportionably larger as the general circulation would be greater." [1]

The following letter, written by an agent at Inverary, to Roger Aytoun, Esq., manager of the Renfrewshire Bank at Greenock, states the inconveniences which the writer apprehends would result from the introduction of a metallic currency into that part of Scotland:

"With regard to the proposed measure of suppressing bank notes in Scotland for less than £5, I think it would be ruinous to this country; for I cannot see how, if it takes place, the business of the country can be carried on. Confining myself to some of the most prominent instances in which the Highlands will be affected, I shall state the difficulties that occur to me. Our produce chiefly consists of cattle and sheep, grain, wood, kelp, and the production of the fisheries. Cattle are brought to the country markets by the breeders, chiefly small farmers, every man attending his own, and having generally from one to three young animals for sale. There they are met by the dealers and graziers, who purchase such of the beasts as suit them; and it is seldom that a single animal, at the age of one or two years, being the ages at which they sell them to the dealers and graziers, comes to the price of £5; the price is more frequently from £2 to £4. Of these a dealer often purchases two or three hundreds in single beasts, so that he

[1] Lords' Report, p. 132.

has more than £1 and less than £5 to pay to each of as many sellers; but he has no notes under £5, and the sellers are not able to return balance in any coin. This will occur to many dealers at every market; and how is the difficulty to be removed? The dealers must all come loaded with gold and silver, and this they cannot carry to the necessary amount; and besides, they will not be supplied by banks with gold and silver for their bills, by which there would be no profit. The means of paying being wanting the seller will not deliver, and the object of the parties is frustrated; and thus a difficulty is cast in the way of disposing of this material article of Highland produce, which must discourage the sales, and occasion a reduction of price, and consequently of the rent and value of land.

"It is the same in the case of grain, of which bear or barley is what is chiefly sold by small farmers to the distilleries. In settling for some bolls, bought in small quantities of two or three bolls, £5 notes will be found most inconvenient; and the purchasers and manufacturers of wood and bark, and of seaweed for kelp, who require many hands, and pay off their workers generally once in the month, none of whom will draw so small a sum as £1, nor so large a sum as £5, will experience the same difficulty.

"The herring fishery on our coasts employs several thousand men, and is of very great importance. Instances have occurred of herrings being taken in Lochfine alone to the value of £40,000 in one season, and a thousand boats are generally employed there in the fishing. The fishermen every morning sell their fish to the curers on shore, receive their money, and set out in quest of more. The value of each boat's fishing for a night sometimes exceeds £5, but generally is under it; and there are, in this fishing station alone, a thousand boats to be paid off every morning, of

whom most probably two-thirds have to receive less than £5 each. It will be impossible to provide gold and silver sufficient for such a purpose; and in the remote parts of the North Highlands, where the fishery is much more extensive, and banks at a greater distance, the difficulty is insuperable.

"At present the business of the Highlands is transacted by means of bank notes of £1, with some larger notes on occasions, and that with the greatest facility. Cattle dealers, and all others having to pay away money to any amount in small sums to a number of people, as in the instances mentioned, prepare themselves by a mixture of notes, some large and some small, accompanied by a few pounds of silver, and everything goes on well. These notes are preferred by the country people before gold, both because they are unable to distinguish between the genuine and base metal, and because coins are more liable to be lost from their pockets than notes; and they have no reason to repent their confidence in the stability of those banks whose notes they have been accustomed to receive for so many years in their transactions. But if small notes are superseded, and gold substituted, it is not easy to see how the supply of gold is to be kept up to carry on the business and transactions of this country. Should a quantity of it be received into the circulation, it would not remain long, but find its way into the banks, who will not again give it out in bills as they do their notes, and it will immediately become a scarce article in the country. A person, then, having to pay in small sums, will on every such occasion be obliged to send his large notes to the bank that issued them, perhaps a hundred miles off, to receive gold and silver in their place, to answer his purpose. The conveyance of it to him is next to be provided for. The weight may be too much for the post. There are no mail coaches; and he

must either employ a carrier, moving too slowly for his occasions, or be at the expense of sending a trusty person for the treasure.

"In transmitting money from one part of the country to another, the same difficulty will often present itself. Suppose a person in the Western Isles has to pay £19 to one on the Continent. At present this may be conveniently done by three notes of £5 and four of £1 enclosed by post; but when there shall be no £1 notes, the odd £4 must be sent in gold or silver, not conveniently carried in a post letter, and requiring that a person be employed for the purpose, and at some expense.

"Many other such difficulties and inconveniences will occur. These presented themselves to me, and I stated them hastily, without regard to order. If you find anything in them useful for the purpose, I shall be pleased. But it appears extremely hard that the Scotch system should be disturbed, and that we should be obliged to adopt one not only unsuitable to our purposes, but ruinous to the business of our country."

IV. *Those Operations of the Scotch Banks that refer to Cash Credits, Deposits, and the Settlement of the Exchanges.*

Cash Credits.—A cash credit is an undertaking on the part of the bank to advance to an individual such sums of money as he may from time to time require, not exceeding in the whole a certain definite amount; the individual to whom the credit is given entering into a bond with securities, generally two in number, for the repayment on demand of the sums actually advanced, with interest upon each issue from the day upon which it is made.

Cash credits are rarely given for sums below £100; they

generally range from £200 to £500, sometimes reaching £1,000, and occasionally a larger sum.

A cash credit is, in fact, the same thing as an overdrawn current account, except that in a current account the party overdraws on his own individual security, and in the cash credit he finds two sureties who are responsible for him. Another difference is, that a person cannot overdraw his current account, without requesting permission each time from the bank; whereas the overdrawing of a cash credit is a regular matter of business—it is, in fact, the very thing for which the cash credit has been granted. The following advantages have been ascribed to the cash credit system:

1. Cash credits enable young men of good character to acquire wealth and respectability.

"I have known many instances of young men who were starting in the world from low situations—of servants, who have conducted themselves well during the time they were apprentices—of farm-servants even, who were able to procure an account from a bank by means of some friends or acquaintances becoming their securities—that in the course of their business have raised themselves by becoming farmers of considerable extent, or manufacturers in a way highly creditable to themselves and beneficial to their country.[1]

"Without cash credits, sober, attentive, and industrious people would not have the means at all of following up what they very deservedly might be encouraged to follow up. They begin the world, in all probability, with a mere trifle, which trifle they have been known to make by their

[1] This and the following quotations are taken from the evidence given by the witnesses from Scotland, before the Committees of Lords and Commons, appointed to consider the expediency of abolishing the notes under £5 in 1826.

own industry. Having made that, it recommends their character to persons of, perhaps, a little more fortune, who, to encourage them, become sureties for their cash accounts.

"The classes of persons who have cash credits are very various; but they are generally the industrious classes of persons—merchants, and traders, and farmers.

"The accommodation is more readily given to a small than to a large amount—the bank preferring to grant ten credits for £100, than one for £1,000, thereby demonstrating that their accounts are quite as much for the assistance of the poor as for the accommodation of the rich."

2. Cash credits furnish great facility to tradesmen and others in carrying on their business, either in the way of raising money, in making purchases, or in employing at particular seasons their surplus capital.

"Is the advantage to the party borrowing greater under the system of cash credit than under the system of lending in the ordinary mode?—Infinitely.

"Why?—As to the question of actual pounds, shillings, or pence, paid in the shape of interest, there is, in the first place, this difference, that when he discounts a bill, he pays the interest on the sum for three months, if that be the currency of it. Should any accidental mercantile transactions throw into this individual's hands, on the next day, the same amount which he had received thus from the banker, he has lost the benefit of the transaction, because he must keep this: if he has a deposit account with the banker he must keep it at banker's interest, while he is anticipated by having paid to the banker three months' discount interest on his bill. If a trader were to take his money systematically by discounts instead of by cash accounts, a disadvantage to him would arise. The

same principle applies to small sums: if half or a quarter, or any part of the advance which he may have received upon the cash account comes into him, he immediately lessens the advance by paying it into the bank, and the interest being calculated at the close of the account, there is a progressive account of interest diminishing with the principal sum till it is extinguished. So far as to actual benefit of interest; but the convenience of getting money when wanted affords a very material advantage, independent of the actual benefit.

"What are the facilities that exist in obtaining this sort of advantage, compared with those of obtaining an ordinary loan?—When a person applies for a cash account, which is not an immediate advance of money on the part of the bank, but a conferring of the power or privilege of drawing upon the bank to the extent specified, the person proposes two or more personal securities: a bond is made out, and he draws as occasion requires. In this way, he has never more from the bank than is absolutely necessary for the purposes of his business. The account is never recalled, unless it has ceased to be beneficial to the bank, by having been but little operated upon, and thus not having promoted the circulation of the bank's notes. Whenever it becomes a dead advance, the bank calls it up. In the case of a person obtaining a loan, he would probably, in the first place, have to pay the interest down at once; he would have to pay it upon the whole sum, whether he should require it ultimately or not, and it would be liable to be recalled by the lender at his pleasure.

"The person who procures a cash credit, does so upon the security of two or three substantial individuals. He may be a man of little property, but upon that security he gets a credit, perhaps, of £500: his bill to anything

like that amount, without those securities, would not be discounted.

"After the permanent credit is given, the option of using it lies solely with the borrower, not with the bank, as does also the option of the period of repayment.[1]

"If a small trader borrow of an individual (not a banker) £100, that individual would not be disposed to receive back his money in £5, or £10, or £15—he would wait till the term expired, when he would receive the whole. When a credit is granted, the individual, perhaps, draws out £50 to-day and pays in £40 to-morrow, and goes on in that way, always having credit with the bank to the extent originally stipulated.

"The repayment as well as the overdraft is permitted by the bank to be made in small sums piecemeal: so that by attention in his repayment, the borrower saves himself from paying interest on more than the precise advance for which he has occasion at the moment, and can constantly convert to a safe and profitable purpose the money which he may receive in the course of his trade, however small the amount.

"These advantages are steadily and uniformly afforded at all times to the industrious tradesman, or farmer, the merchant, the professional man, and the landlord."

3. Cash credits supply capital for carrying on extensive branches of trade, employing the population, and constructing public works.

"Cash credits for small sums enable the poor to be as instrumental, as far as their means go, in increasing the

[1] It is true the borrower can avail himself of the full extent of the credit, or not, as he pleases. But at the present time, at least, it is not correct to say that the option of the period of repayment lies with the borrower, as every bank retains the power of calling up the credit on giving three or six months' notice.

capital of the country, as the rich are. For the produce of that industry which cash account credits enable to operate, and of that capital which they leave at liberty to be employed in trade, goes to increase the real wealth and capital of the country; and a great proportion of the transactions, carried on through the instrumentality of cash accounts, consists of those of the poorer classes.

"I apprehend that those cash credits have enabled a large number of manufacturers to carry on business, and to employ the population of the country, who, if they had not such credits, could not have carried on such business, nor employed such population.

"Cash credits are granted to almost all descriptions of persons throughout the country. Every young man who has a prospect of success on entering life, applies for a cash credit. A great many gentlemen have cash credits, and a great many farmers. There is hardly any public work undertaken in Scotland that the first object is not to apply for a cash credit, to carry it on to advantage. All the roads in Scotland are managed by Parliamentary trustees; and I believe there is hardly any one of those sets of trustees which have not cash accounts for the purpose of carrying on their operations. I am sure many of the most important public works in Scotland would not have been carried on, or certainly not with the same advantage, but for the credits they obtain from the banks."

4. Cash credits prevent large manufacturers setting up as bankers, and thus they exclude those evils which in other countries have resulted from the failure of private banks.

"When the system is applied to the case of large manufacturers, employing hundreds or thousands of workmen, and possessing a cash credit to a proportionate amount,

upon sufficient security, one obvious effect is, that the temptation is removed from the manufacturer of attempting to issue notes, and becoming himself a banker—an error or temptation which, if what is said is true, has been the main cause of the institution of many insufficient English bankers, whose partners, from being good traders, became bad bankers, and brought upon their own district the distress which bad banking sooner or later always produces."

5. Cash credits have a considerable moral influence upon the habits and character of the people.

"The security afforded to a bank by its debtor, or rather its customer, on a cash credit, is by bond, with two sureties at the least; occasionally there are not two sureties, but frequently many more; the practical effect of which is, that the sureties do, in a greater or less degree, keep an attentive eye upon the future transactions and character of the person for whom they have thus pledged themselves. And it is, perhaps, difficult for those who are not intimately acquainted with it to conceive the moral check which is afforded upon the conduct of the members of a great trading community, who are thus directly interested in the integrity, prudence, and success of each other. It rarely, indeed, if ever, happens, that banks suffer loss by small cash credits.

"This system has a great effect upon the moral habits of the people, because those who are securities feel an interest in watching over their conduct; and if they find they are misconducting themselves, they become apprehensive of being brought into risk and loss from having become their securities; and if they find they are so misconducting themselves, they withdraw the security.

"Sometimes cash credits are recalled from the interference of the securities. They have the power of know-

ing from the bank at any time the state of the account, and the operations upon it; and if from that, or from other circumstances, they have been led to think less favourably of the person for whom they gave the security, they can immediately cease to allow that account to be further operated upon."

The Report of the Committee of the House of Lords contains the following observations upon the effects of cash credits:

"There is also one part of their system which is stated by all the witnesses (and in the opinion of the committee very justly stated) to have had the best effects upon the people of Scotland, and particularly upon the middling and poorer classes of society in producing and encouraging habits of frugality and industry. The practice referred to is that of cash credits. Any person who applies to a bank for a cash credit, is called upon to produce two or more competent securities, who are jointly bound; and after a full inquiry into the character of the applicant, the nature of his business, and the sufficiency of his securities, he is allowed to open a credit, and to draw upon the bank for the whole of its amount, or for such part as his daily transactions may require. To the credit of this account he pays in such sums as he may not have occasion to use, and interest is charged or credited upon the daily balance as the case may be. From the facility which these cash credits give to all the small transactions of the country, and from the opportunities which they afford to persons who begin business with little or no capital but their character, to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived by the whole community."

As by cash credits the banks render themselves liable to be called upon at a moment's notice for the amount of

the credit granted, it is natural to suppose that they contemplate some advantage in return. The advantage contemplated is the circulation of their notes. It is not intended that the cash credit shall be a dead loan of capital. It is expected that there shall be a perpetual paying in and drawing out of money; and the smaller the denomination of the notes drawn out, the more advantageous is the account to the bank. Manufacturers who pay away large sums every week in wages, linen buyers and cattle dealers, millers and provision merchants, who make their purchases in small sums, and generally all those who have quick returns of money passing through their hands, have the means of making a cash credit profitable to the bank. On this subject I again quote the evidence:

"To secure to the bank the advantages of circulation, which is to make it worth while to afford these facilities at so little expense to a customer, he, on his part, is to lose no opportunity of bringing to the bank, and thus withdrawing from circulation, the notes of every rival bank which comes into his hands in the course of his transactions; or of paying away, and thus introducing into circulation, as many of the notes of the bank as his transactions admit of, always £1 notes if possible. The payments and receipts must be frequent, for in this consists the banker's profit, inasmuch as the payments are uniformly made by him in his own notes, and the receipts are generally, in a very great degree, in the notes of other banks. Thus, supposing a shopkeeper to have a credit for £50 or £100, if his receipts and payments average £5 per day, he may, in six months, or 150 days, have placed 750 of his banker's £1 notes in circulation.

"It is quite necessary, in order to render a cash account beneficial, that there should be repeated and continued operations upon it; that the transactions should be nu-

merous; that there should be a continual drawing out and paying in of money; and that, by these means, a circulation of the bank notes may be promoted; otherwise the account is withdrawn, and the great reason of this is, that these accounts are not intended to form dead loans, but to be productive of circulation to the bank.

"The explanation of the cash credit system is this:—The bank who first opened a cash credit opened it with an individual shopkeeper. He received payment of his goods in the currency of the country. Previous to that system, he used to put his currency into his drawer, £8 or £10, or whatever it was. If people brought him larger money to pay for his goods, he returned those people change; or if he did not, he kept it until he wanted to purchase for himself. But after the banker had explained to him what he wished him to do, when the shopkeeper received the currency of the country, instead of putting it into his till, he looked to the banker's shop as his till, and handed it over to the banker, and left his own till with only the change which he could not do without. Then, when he required sums to pay away, instead of taking them from his till, he sent to the bank, and took from it what he required, the banker giving him his own notes. So much of the previous currency was thus removed, and the banker's notes taken in its place. That was the effect of the first operation, when the thing was only in so simple a state that there was only the notes of one bank and a metallic circulation. If you apply the same principle where there are thirty banks, the result would be the same. The amount of the circulation of the country continues the same, but the proportions between its parts vary."

Deposits.—A sum of money deposited or placed in a bank is called a deposit. Most banks grant interest on these deposits, but some do not. The Scotch banks have

carried this practice to the greatest extent, and the deposit system forms a very important branch of the banking system in Scotland.

Those regulations which the banks have established as the rule of the transactions between themselves and the depositors are the following:

The depositor may place in the bank any amount of money he pleases above £10.

The whole or any part of the deposit may be withdrawn at the pleasure of the depositor without previous notice.

Interest is allowed on the deposit from the day it is lodged in the bank until the day it is drawn out. Provided, that is, it has been allowed to lie a month, no interest being paid upon a sum deposited for a shorter period.

The following are the advantages ascribed to the deposit system:

1. The system of deposits is advantageous to the lower classes—in providing a place of safety for their deposits—in granting them interest on their savings—in encouraging habits of frugality—and thus often enabling them to advance in society.

"The deposit branch divides itself into two parts:—There is, first, what is called a running account, where the party pays in from day to day the whole surplus funds in his hands, and on which he receives interest. These depositors are, in general, shopkeepers, and merchants, and traders, more particularly in large towns; and in these deposit accounts there is found at their credit, at the close of every day, the whole amount of the money for which they have not immediate employment in their trade. The second branch of deposits consists of small sums placed in the hands of the bank at interest, which have been in general the savings of their industry, and which are put

into the hands of the bank to accumulate, and on which they may operate, not in the way of a running account. They may receive a partial payment whenever they please; but in general these deposits are very seldom removed, excepting when an individual has occasion to build a house or begin business. This class of deposits is distinguished from running accounts by the name of deposit receipts." [1]

"What class of the community is it that makes the smaller deposits?—They are generally the labouring classes in towns like Glasgow. In country places, like Perth and Aberdeen, it is from servants and fishermen, and just that class of the community who save from their earnings in mere trifles small sums till they come to be a bank deposit. There is now a facility for their placing money in the provident banks, who receive money till the deposit amounts to £10. When it amounts to £10 it is equal to the minimum of a bank deposit. The system of banking in Scotland is just an extension of the provident bank system. Half-yearly or yearly these depositors come to the bank, and add the savings of their labour, with the interest that has accrued from the previous half-year or year, to the principal. And in this way it goes on, without being at all reduced, accumulating, till the depositor is able either to buy or build a house, when it comes to be one, two, or three hundred pounds, or till he is able to commence business as a master in the line in which he has hitherto been a servant. A great part of the depositors of the bank are of that description; and a great part of the most thriving of our farmers and manufacturers have arisen from such beginnings. And in regard to the deposit receipts, I may just mention what is generally the way in which they are granted. To-

[1] Lords' Report, p. 74.

day a person from the country appears at the bank, it may be with £20 or £30 or £50. We probably never see him again till that day twelvemonth, but we are sure of seeing him about that very day. If he has £20 in the bank, he may come and say, 'There are four guineas; you will give me a receipt for £25.' He knows well that the £20 has earned 16*s.* interest. He goes away with his new receipt, and returns on that day twelvemonth; then again it is added to, and thus accumulated—and so in many instances throughout the country." [1]

2. The system of deposits is advantageous to capitalists in furnishing them with a secure mode of employment of capital, either for a longer or a shorter period, at their pleasure.

"What class of persons form the large and steady depositors in the Scotch banks?—The middling and the lower order of society, industrious poor people, who are saving their money, and small capitalists who have raised a moderate sum of money, upon the interest of which they live.

"Do many persons live upon the interest of their deposits, as far as you know?—Yes, a great many." [2]

"Do you know whether it is the practice of persons who have small capitals in Scotland, to invest them in the public securities in London, or to deposit them with the banks in Edinburgh?—I believe, almost universally, to deposit them with a Scotch bank.

"And they live upon the interest of what they so deposit, in the manner as persons here live upon their interest on stock?—Yes; they often look to the permanent capital with a view of leaving it at their death, taking the interest during their lives." [3]

[1] Commons' Report, p. 159. [2] Lords' Report, p. 165.
[3] Commons' Report, p. 124.

"The deposit accounts are of two kinds: one kind from the commercial people, who have large sums that they wish to keep in a disposable form, waiting an opportunity of any investment which may occur. Of the operating deposits, there are others who keep the money until a favourable turn in the Stock Exchange enables them to invest it there. And there are others, respectable householders, who keep it for the purposes of their family expenditure. I reckon that these and the sums due upon them average one-half of the aggregate amount of a bank's deposits." [1]

"Have you formed any estimate of the amount of deposits in all the banks in Scotland?—I certainly have been at very great pains to get information upon the subject; and I am satisfied that the amount is considerably above twenty millions—I should say, twenty-five millions.[2]

"From what class of persons are those deposits chiefly?—Generally from industrious tradesmen, small shopkeepers, varying from £10 to £500. The greatest number of deposits, and the greatest in their aggregate amount, are in small sums.[3]

"Are there not, however, deposits from richer classes, and each of them to a much larger amount?—Certainly, there are deposits from £1,000 to £20,000 and £30,000." [4]

"In the spring of 1824, the banks in Scotland began, in some instances, to decline accepting deposits at all. In the autumn of 1824, the great banks made an express rule that

[1] Lords' Report, p. 183.

[2] The amount at present deposited with the Scotch banks, in permanent deposit and current accounts, is upwards of one hundred millions (September, 1906).

[3] As bearing upon this, we may observe that during the liquidation of the City of Glasgow Bank it was found that 45,000 depositors had deposited on deposit or current account an average amount of £30 each.

[4] Lords' Report, p. 231.

they would not accept more than £5,000 from any one depositor. They allowed 2½ per cent. on the first £3,000, and 2 per cent. upon the remainder of the £5,000, and above that they would not allow any interest. That was the general rule with the great banks at that period. There were many people who preferred leaving their money, though they received little or no interest, to taking it away. That commenced in 1825." [1]

3. The system of deposits is advantageous to the country —by augmenting the amount of national capital—by increasing the demand for labour—by granting facilities to trade and commerce—and by removing the temptations to engage in hazardous speculations and foreign investments.

"This system was adopted before the middle of the last century. The rate of interest allowed since then has been regulated by the value of money, and has, of course, fluctuated considerably; but it has ever been such as to afford as high a return to the depositor as has been consistent with the reasonable profit, and of course the security of the bank. The effect of this system has been to encourage and to afford the means of the accumulation of capital among the lower, as well as the higher orders, by placing within the reach of all, a convenient, safe, and moderately profitable investment of money, and to offer an inducement to capitalists to retain their accumulations in Scotland, notwithstanding the opportunities or temptations which foreign investments might hold out." [2]

"The system of deposit accounts, I think, is a very great stimulus to the habits of industry and economy and frugality in Scotland. The whole surplus capital of the individual is thus rendered productive.

"Under the system on which you conduct your business,

[1] Lords' Report, p. 158. [2] Ibid., p. 175.

is not the money arising from those deposits issued out, to encourage the farther consumption of labour in the country?—Yes.

"It would be a loss, then, to the country, if it was to be removed from the channel in which it is now placed, into this country, on Government debentures?—It certainly would.

"Under this system, does not the poor workman gain immediate interest for his saving, whilst the saving is immediately employed through the bank in putting a farther portion of labour into motion?—Precisely so. It is in this way that the wealth of those individuals is concentrated, and through the agency of the bank is brought to bear in carrying on the business of the country." [1]

"Is there not an advantage to the public from the gathering of those small capitals together, forming part of the deposits of the bank, and so being sent out again in large sums, like other capitals, for the purpose of being applied to increase the powers of productive industry?—The Scotch banks form a sort of reservoir for receiving the small sums of capital scattered throughout the community, and then sending them forth into channels of trade, so as to promote the commerce, manufactures, and agriculture of the country." [2]

"Are you of opinion, that if the deposits with the banks of Scotland were considerably lessened, the banks could afford the same accommodation by discounts which they do at present?—I should think that is impossible, because it forms part of their capital. It would diminish the capital which is at present employed in that business, of which discounting forms a great part.

"Would not any such diminution of discount operate

[1] Lords' Report, p. 283. [2] Commons' Report, p. 203.

injuriously to the general trade of the country?—The want of those discounts must diminish the trade of the country, inasmuch as the manufacturer or merchant receives his money at least three months sooner by discounting his bills, than he could possibly get payment of his account."[1]

"The system of deposits forms a great part of the funds arising from our banking system. It is a great deposit of money which is given out to the trade of the country, for the profit of one per cent., for which the bank runs the risk of its business. If that great deposit were withdrawn, and could not be issued with the same degree of safety, I conceive the consequences would be a total derangement of the whole system, and ruin of our country."[2]

"If the banks are under the necessity of reducing the interest on deposit accounts, the depositors must look about them and find out on what security they can lend their money so as to obtain a higher rate of interest. It would certainly diminish the capital of the trading part of Scotland, inasmuch as the banks would not have it in their power to assist them in trading by discounting; but it might be lent on Government securities or landed property, and the temptation of a higher interest from individuals would, undoubtedly, be a temptation to many—and a temptation that could scarcely be resisted by those whose income depends entirely upon the interest of that lent money—to lend it on personal and doubtful security.

"When the banks reduced their interest some time ago, a great part of the deposits was drawn out, to be invested in various different ways. And as the depositors did not get from the banks the interest on which they were depending, and did not choose to take a less interest, many

[1] Lords' Report, p. 266. [2] Ibid., p. 235.

of them went into schemes, which have turned out very ruinous to them. It has been one great cause of over-speculation, that the people did not get the interest they had been accustomed to from the banks. They, therefore, drew it out to invest it in joint-stock companies, lent it to builders, or other inferior securities, or became builders themselves."[1]

4. The system of deposits is advantageous to the banks —by inducing every person to deposit his money in a bank —by furnishing the banks with capital to carry on their business—and by putting in circulation a large amount of their notes.

"The universal practice at Glasgow is, to pay into the bank with which the individual transacts his business, the whole of the notes he has in his possession, or nearly the whole, every day."[2]

"Unquestionably, the giving of interest upon deposits is an inducement to every person that has any surplus money in his hands, to place it in the hands of his banker. And in the same way in the case of cash accounts, every payment by the holder of a cash account into the bank, either diminishes the interest he has to pay to the bank, or if the account should turn in his favour, enables him to get interest from the bank, and that is a great inducement for every person to pay in daily into his banker's hands all the money which he does not require for the purposes of his business."[3]

"The means of a bank I conceive to consist of three things—first, capital paid in its own stock—secondly, the notes which the bank is able to keep afloat in the circle—thirdly, the amount of the deposits."[4]

"And if the amount of deposits were lessened, in that

[1] Lords' Report, p. 250.
[2] Commons' Report, p. 50.
[3] Ibid., p. 201.
[4] Lords' Report, p. 195.

case their means of issuing money upon discount would be proportionably lessened?—Yes."[1]

"Every bank constituted as the banks of Scotland are, makes advances in two ways.—They make them upon cash credits, and they make them upon the discount of bills. They also borrow in two ways.—They borrow upon deposit receipts, and they borrow also upon accounts current. That is, if a gentleman opens an account, and puts £100 to his credit, and operates upon it, drawing out a part of it, leaving a balance in the hands of the bank, then there is a borrowing to the extent of the balance that is so left. Those accounts we do not allow to be overdrawn, so that the advance is in two ways, and the borrowing in two ways —that is, in two different forms."[2]

"In the case of small depositors, a considerable part of the profit arising from the deposit of that money is the circulation of the notes. When a depositor withdraws his money from the bank he receives it in the notes of the bank, and, of course, they go into circulation. As long as they remain out they are a source of profit."[3]

"The banks issue their notes two ways; they make advances upon cash accounts, and they make advances upon discounts. They also issue their notes in payments upon accounts current, and also in the repayment of deposit receipts."[4]

"The deposit and cash accounts are the instruments for supporting our circulation, and without the continued operations upon the deposits and cash accounts our circulation cannot be maintained."[5]

[1] Commons' Report, p. 150.
[2] Ibid., p. 180.
[3] Ibid., p. 45.
[4] Lords' Report, p. 236.
[5] Ibid., p. 135.

Rules to be observed at the Exchanges of Notes and General Settlements of Balances between the Banks in Edinburgh.

I. There shall be exchanges of notes, and general settlements of these exchanges, and of the Clearing-House, as follows:

Exchange of Notes.	General Settlement of Exchanges and Clearing.		
	On	To include	
		Notes.	Clearings.
Daily, except Monday, at 10 a.m.	Monday at 2 P.M.	The Notes of Thursday and Friday, and the large Notes of Saturday; also the Glasgow and Country Exchanges of Saturday.	Friday, Saturday, and Monday.
Also on Saturday, at 1 P.M., for large Notes only.			
	Thursday at 2 P.M.	The Small Notes of Saturday, the Notes of Monday, Tuesday, and Wednesday; also the Country Exchanges of Wednesday, and the Leith Settlements of Thursday morning.	Tuesday, Wednesday, and Thursday.

The general settlements shall be made by the clearing clerks.

II. When Monday is a holiday, the general settlement shall be made on Tuesday, but there shall be no exchange

of notes on that day; when Thursday is a holiday, the general settlement shall be made on Friday; when Saturday is a holiday, there shall be an exchange on Friday afternoon.

When the Term Day falls on a Saturday, the exchange shall meet in the afternoon, at such hour as may be agreed upon.

III. The clerks shall be in attendance punctually at the hours stated, *fifteen minutes* after which the doors are to be closed, and the notes in the hands of the banks not represented excluded until next exchange. Such banks shall, however, retire in accordance with Rule VII, the notes brought into the exchange against them by other banks.

IV. Each bank shall be represented by at least two clerks. On arriving at the Exchange Room, one of the clerks shall deliver the notes, and the other clerk shall remain in the box to receive the notes from the other banks. Unless there is a clerk to receive them, on no account shall any notes be passed through the wickets. No one shall enter the box of another bank,—the door must be kept locked.

V. The clerks from each bank shall *all* remain in the Exchange Room until the whole of the notes received by them have been counted, and at least one clerk from each bank shall remain until the whole of the notes delivered by that bank have been counted. The notes received from any one bank shall not be mixed with those received from the other banks, until they have been found to agree with the specification received along with them. In case of a dispute arising on any occasion as to the amount contained in any parcel of notes, received or delivered by a bank which has infringed the rules in this clause, such bank shall, in the absence of conclusive evidence in its favour, be held to be in the wrong.

To prevent any undue delay in counting the notes, each of the banks shall provide a competent staff for that purpose, to the satisfaction of the settling bank of the day.

VI. The settlements shall be undertaken each alternate month by the Bank of Scotland, and by the Royal Bank of Scotland; but neither bank shall be held to incur any responsibility in respect of these transactions.

On Monday and Thursday, the balances shall be included in the general settlement of the exchange and clearing. On Tuesday, Wednesday, Friday, and Saturday morning, unless when a general settlement falls on any of these days, the exchange balances shall be combined with the general balance of the clearing of the same day. On Saturday afternoon the settling bank shall grant and receive vouchers for the balances, which shall be carried into the next day's clearing, and shall bear interest at the current deposit receipt rate.

VII. When the balances of the general settlement have been struck, the settling clerk of the day shall at once enter the particulars in a record provided for that purpose, and the banks who are debtors in the settlement shall, on the same day, before the close of business, send to the banks who are creditors, letters intimating that in four days thereafter the respective amounts due will be transferred to their credit in London. The debtor banks shall, on the settling day, include in the settlement letters four days' interest on the amounts, at the current deposit receipt rate.

In the event of the fourth day after the settling day being a Bank Holiday in London, the payment of the balances shall be postponed until the first business day thereafter, and additional interest shall be paid for the day or days so added.

VIII. In the event of the amount of any transfer by

advice not being duly paid in London, without prompt and satisfactory explanation of the cause, the bank issuing such intimation of transfer shall be immediately excluded from the Exchange Room and Clearing-House.

IX. When exchanges are established in provincial towns, the exchangeable notes received at the agencies must be exchanged there; and must under no pretext be forwarded to meet the exchanges in Edinburgh, or at the other agencies.

X. It is further understood and agreed, in consideration of the circulation of each bank (other than what may be issued against gold and silver coin), being fixed and limited by the Act 8 and 9 Vict., cap. 38, that the banks shall bring to the Exchange Room regularly, at their head offices and agencies, all the exchangeable notes which they receive; and that under no circumstances shall any of the subscribing banks issue the notes of another bank of issue in Scotland, without permission first asked and obtained.

XI. The record of the general settlements shall be open for the inspection of any of the subscribing banks at such times as may be convenient.

XII. Any of the parties to this agreement shall be entitled to withdraw from it on giving three months' notice.

Rules of the Edinburgh Clearing-House.

I. The Clearing-House shall be opened on every business day, except Saturdays and local holidays, at 1 p.m.; on Saturdays it shall be opened at 11 a.m.; and on local holidays it shall be opened at 10 a.m. The Clearing-House shall be closed fifteen minutes after the hour of opening. There shall be additional clearings at the terms of Whitsunday and Martinmas, as may be arranged by the banks.

II. Each bank shall be represented at the Clearing-House by a competent clerk, who shall deliver and receive the documents referable to his bank. He shall be furnished with a set of books for the various banks, in which the documents delivered by him shall be entered, summed, and tested before he goes to the Clearing-House, and he shall hand to each of the other banks a duplicate list along with the documents delivered. He shall also be furnished with a book in which he shall strike the balances, and he shall not leave the Clearing-House until the general balance has been completed.

III. Demand documents payable at the banks in Edinburgh, bills domiciled with the chief offices of the banks in Edinburgh, and documents payable elsewhere in Scotland where the clearing bank has not a branch or correspondent, may be passed through the Clearing-House.

IV. It shall be in the option of each bank to send, by post to the places where they are payable, or, in the case of Edinburgh offices, by post or messenger, direct to the offices where they are payable, such documents as are clearable under Rule III, and to obtain payment therefor by means of debit vouchers to be cleared in their place. Such documents may, except on local holidays, be delivered by messenger between chief offices in closed packets, accompanied by a list of the enclosures, not later than 10 a.m on ordinary days, and 9.30 a.m. on Saturdays. When documents are presented by a messenger, otherwise than in a closed packet, a debit voucher therefor shall at the same time be presented, which, if the documents are duly honoured, shall be signed by the receiving bank, and returned by the messenger.

V. Each document shall be sufficiently discharged before being cleared or remitted, and shall distinctly bear the name of the bank and office from which it proceeds.

Documents passed through the Clearing-House shall also bear a Clearing-House stamp, with the name of the clearing bank and the date of clearing.

The banks agree to dispense with the discharge of exchange vouchers passed through the Clearing-House.

VI. Documents payable at branches within the municipal boundary of the city, passed through the Clearing-House, shall be presented on the day of clearing. Demand documents payable at country branches shall be forwarded on the day of clearing.

VII. Documents payable at a chief office, which have been passed through the Clearing-House, and are not duly honoured, shall be returned on the day of clearing by messenger to the office by which they were cleared, not later than 3 p.m. on days other than Saturdays and local holidays, 12.30 p.m. on Saturdays, and 11.15 a.m. on local holidays. Documents delivered at a chief office in closed packets under Rule IV, shall be returned, if dishonoured, not later than through the first clearing thereafter.

Cheques payable at a branch and not duly honoured, shall be returned by first post after dishonour, or by other means involving no greater delay, direct to the offices at which they were cashed. Bills and cash orders unpaid shall also be returned direct. Documents cleared or remitted by the banks on account of their correspondents shall be returned direct, whether slips so instructing are attached to them or not.

All documents returned unpaid shall have an answer appended, stating the cause of dishonour, and repayment shall be effected by means of debit vouchers to be passed through the Clearing-House.

VIII. The Bank of Scotland and the Royal Bank of Scotland agree to undertake the settlement of the clearings for each alternate month. On Mondays and Thursdays

the balances shall be included in the general settlement of the exchange and clearing; on other days the settling bank shall receive from those banks which are *debtors* on the clearing settlement (with which shall be included the balance of the exchange), and shall give to those which are *creditors*, exchange vouchers for the respective balances within one hour after the striking of the clearing balances. These vouchers shall be brought into the next clearing, and shall bear interest from the date of issue till the date of that clearing, at the deposit receipt rate current on the day of settlement, the interest being included in the voucher given for the balance.

The rules for conducting the general settlement of the exchange and clearing are laid down separately.

Neither the Bank of Scotland nor the Royal Bank of Scotland shall incur any responsibility whatever in respect of these transactions.

IX. All expenses connected with the Clearing-House shall be borne by the banks in equal proportions, and shall be paid by them half-yearly.

The following are the banks which are members of the Edinburgh Clearing-House:

The Bank of Scotland,
The Royal Bank of Scotland,
The British Linen Bank,
The Commercial Bank of Scotland, Limited,
The National Bank of Scotland, Limited,
The Union Bank of Scotland, Limited,
The Clydesdale Bank, Limited.

SECTION XXXI.

THE IRISH BANKS.

THE last Act of Parliament for regulating banks in Ireland is the 8 & 9 Vict., cap. 37, passed in the year 1845.

This Act recites that by the Act 21 & 22 Geo. III an Act was passed for establishing a bank by the name of the Governor and Company of the Bank of Ireland; and which prohibited any other company consisting of more than six persons to issue notes payable on demand or within any time less than sixth months. That by the Act 1 and 2 Geo. IV, cap. 72, other companies consisting of more than six partners might issue notes payable on demand, at a greater distance than fifty miles (Irish) from Dublin. And that by 6 Geo. IV, cap. 42, and 1 Wm. IV, cap. 32, such co-partnerships of bankers might transact certain matters of business by agents in Dublin, including the payment though not the issue of notes.

The Act farther recites that the Bank of Ireland had at various times advanced for the public service the several sums or £600,000, £500,000, and £1,250,000, late Irish currency; and that by the 48 Geo. III, cap. 103, the charter of the Bank of Ireland was extended to the 1st day of January, 1837—upon twelve months' notice to be published in the "Dublin Gazette," and after the repayment of the above-mentioned sums. And that by the Act 1 and 2 Geo. IV, cap. 72, the Bank of Ireland had agreed to advance a further sum of £500,000, and the Bank was em-

powered to enlarge its capital to £3,000,000; making the total advances £2,850,000, late Irish currency, equal to £2,630,769 4*s*. 8*s*. sterling money of the United Kingdom of Great Britain and Ireland; on which by the Act 3 and 4 Vict., cap. 75, the bank received an annuity from the Government of £115,384 12*s*. 4*d*. sterling, payable on the 5th of January and 5th of July in each year, redeemable upon six months' notice, to be given after January 1st, 1841, and after payment of the above-mentioned sums.

The Act farther recites that the above annuity of £115,384 12*s*. 4*d*. has, with the consent of the said governor and company, been reduced to £92,076 18*s*. 5*d*., being at the rate of $3\frac{1}{2}$ per cent. per annum on the capital sum of £2,630,769 4*s*. 8*d*., which capital sum shall not be repaid until the expiration of six months' notice, to be given after January 1st, 1855; and that, during such term, the said governor and company shall manage the public debt free of all charge. The company is to continue a corporation, for the purpose of carrying on the business of banking, but not to have any exclusive privileges. The charter to continue until the expiration of twelve months' notice to be given and published in the "Dublin Gazette," after January 1st, 1855, and upon repayment of the sums due from the Government to the bank.

The Act removes, from the 6th day of December, 1845, all restrictions upon banks having more than six partners issuing notes and carrying on business in Dublin and within fifty miles thereof. But no banker shall issue any larger amount of notes than the average amount he had in circulation during the year ending the 1st day of May, 1845 (which amount shall be certified by the Commissioners of Stamps), and the amount of gold and silver coin he may have in his hands, in the proportion of not more than one-fourth of silver to that of gold.

In case two banks should unite, the new bank to have the power to issue to the amount of both the united banks. Any bank may arrange with the Bank of Ireland to give up its issue, and in that case the Bank of Ireland may increase its issue to that amount. But the bank that thus contracts shall not afterwards resume its issue. All notes for a fractional part of a pound are prohibited. Each bank issuing notes is required to send to the Stamp Office weekly returns, stating the amount of notes in circulation on each Saturday, distinguishing those below £5; and also the amount of gold and silver coin held at each of the head offices or four principal places of issue in Ireland. And from these returns the Commissioners of Stamps and Taxes shall make a monthly return, which shall be published in the "Dublin Gazette." This monthly average must not exceed the amount certified by the commissioners and the amount of gold and silver on hand.

All banks are required to send a list of their shareholders to the Stamp Office every year between the 1st and the 15th of January, to be published in the "Dublin Gazette" before the 1st day of the succeeding March. All banks, whether they issue notes or not, are entitled to sue and be sued in the name of their public registered officer.

Upon the Act of 1845, for the regulation of banks in Ireland, we may observe:

1. The authorized issue is, like that of the banks of Scotland, the average amount of the year ending on the 1st day of May, 1845.

2. If any two banks unite, the new bank may issue to the amount of the circulation of both the united banks. Here the law is the same as that of Scotland, but different from that of England.

3. If any bank gives up its issue, and agrees to issue

Bank of Ireland notes, the Bank of Ireland may increase her authorized issue to the full amount of the issue of the bank whose notes are withdrawn. In England, the Bank of England can, in a similar case, issue only to the extent of two-thirds of the issue of the bank whose notes are withdrawn, There is no similar provision in the Act referring to Scotland.

4. Another difference may be noticed between Ireland and Scotland. All the notes issued at the branch banks in Scotland are payable only at the head office of the bank that issued them. In Ireland, by the Act 9 Geo. IV, cap. 81, all notes must bear to be payable at the place or places where they have been issued or reissued. Hence the banks in Ireland must keep some gold at every branch, while the banks in Scotland need not have any gold except at the head office. In both countries, the banks must hold a stock of gold equal to the amount of notes in circulation beyond the authorized issue; and, according to the Act, this gold must be at the head office, or chief places of issue. The gold held at the branches, however necessary for business purposes, is not taken into account in the returns to the Stamp Office. The banks, indeed, return the whole amount of the gold in their possession; and it is this which is published in the newspapers. But the amount held against the excess of authorized issue must be held at the chief office, or at four chief places of issue. In the Provincial Bank of Ireland these places are Cork, Limerick, Dublin, and Belfast.

The Bank of Ireland is a chartered bank, like the Bank of England. It is the Government bank. It issues notes and has branches in the principal towns throughout Ireland. It has now no exclusive privileges.

In tracing the history of banking, we may observe that most public banks have been formed, in the first instance,

under the protection of the Government of the State in which they were established. Such was the case with the Banks of Venice, Genoa, and Amsterdam; and such, too, was the case with the Banks of England, of Scotland, and of Ireland. The former were closely connected with the State, and may properly be called "State Banks"; the latter had peculiar privileges bestowed by charter, and are usually called "Chartered Banks." These privileges may be divided into two classes, those which refer to the proprietors themselves, and those which refer to other parties. The privileges of the first class relate to the amount of capital, the form of government, the number of directors, and the mode of their nomination, the meeting of the proprietors, and the specification of the branches of business the banks are allowed to carry on. The privileges of the second class refer to the restricted liability of the shareholders, and the prohibition of other parties carrying on the same business.

If the charters granted to banking companies conferred only the first class of privileges, they would be liable to but little objection. In the infancy of commerce and of banking, the assistance of the Government may with propriety be granted to encourage the formation of institutions so eminently calculated to promote the public advantage. But of what avail are prohibitory clauses? If no other persons are disposed to form similar institutions, then those prohibitions are a nullity. But if other parties are disposed to form similar companies, without the assistance of the Government, then why should the Government interfere at all? Why should they grant a charter to effect an object which can be effected without their assistance?

In the charter first granted to the Bank of England in 1694, there was no prohibitory clause. But when the

charter was renewed in 1708, it was enacted that no other company formed of more than six persons should carry on the business of banking in England. The charter granted to the Bank of Scotland in 1695, contained the following prohibition:—"That for the period of twenty-one years from the 17th of July, 1695, it should not be lawful for any other persons to set up a distinct company or bank within the kingdom of Scotland." This privilege was not renewed after the expiration of the twenty-one years; and in the year 1727 a charter, without any prohibitions, was also granted to the Royal Bank of Scotland. In the year 1746 the British Linen Company was formed, and carried on the business of banking as a joint-stock company. Subsequently this bank also obtained a charter, but without any exclusive privilege. Hence Scotland has had the advantage of chartered banks, and joint-stock banks, and private banks, all working well together, without producing those effects which in this country have followed the prohibitory clauses of the charter of the Bank of England.

Both in its constitution and government the Bank of Ireland closely imitated the Bank of England; and it has produced in Ireland most of the advantages and evils which that establishment has produced in this country. It has supplied the country with a currency of undoubted solidity; it has supported public credit, it has granted facilities to trade, and it has assisted the financial operations of the Government. On the other hand its prohibitory clauses necessarily led to the formation of many private banks, whose failure was the cause of immense wretchedness to all classes of the population.

The charter of the Bank of Ireland contained a clause which prevented more than six persons forming themselves into a company to carry on the business of banking

in Ireland. In the year 1824, they surrendered this exclusive privilege, as far as regards those places which are situated at a greater distance than fifty Irish miles from Dublin; and in 1826, the Bank of England made a similar surrender, with regard to places at a greater distance than sixty-five miles from London. As eleven Irish miles are equal to fourteen English miles, fifty Irish miles are equal to about sixty-five English miles. But it must be observed, that Dublin is situated on the sea-coast, therefore, the Bank of Ireland had only the monopoly of a semicircle, whose radius is fifty Irish miles. But London being situated inland, the Bank of England had the monopoly of a whole circle of 130 English miles in diameter.

The Bank of Ireland was established by an Act of Parliament passed in 1782, 21 and 22 Geo. III, cap. 16. The following are the provisions of this Act:

The capital was £600,000, which was lent to Government at 4 per cent. No one person was permitted to subscribe more than £10,000. If the bank incurred debts to a greater amount than their capital, the subscribers were answerable in their private capacity to the creditors in proportion to their subscriptions. The bank were not either to borrow or to lend money at a higher interest than 5 per cent., nor to engage in any business but banking. The stock to be transferable and deemed personal estate, and as such to go to the executors of the holders, and not to their heirs. No transfer of bank stock to be valid, unless registered in the bank books in seven days from the contract, and actually transferred in fourteen days; the charter to expire at twelve months' notice after the 1st day of January, 1794, and repayment of all sums due by the Government to the bank.

The charter is dated May 15, 1783, and contains as fol-

lows:—Such persons as should subscribe before January 1, 1784, the sum of £600,000, were to be formed into a corporation, to be styled the Governor and Company of the Bank of Ireland. The Corporation were to have a governor, deputy-governor, and fifteen directors; which governor, deputy-governor, and directors, or any eight or more of them, should be called a Court of Directors, for the management of the affairs of the corporation.

Fifteen directors should be chosen annually, between March 25 and April 25 in each year, [and not above two-thirds of the directors of the preceding year to be re-elected.][1]

The notice for the meeting of general courts of proprietors to be affixed upon the Royal Exchange in Dublin at least two days before the time of meeting. The qualification for a voter at a general court shall be £500 stock, to be held for six months preceding, unless it came by will, marriage, &c. The qualification for governor shall be £4,000 stock, and for deputy-governor £3,000, and for director £2,000.

No dividend shall at any time be made by the said governor and company, save only out of the interest, profit, or produce, arising by or out of the said capital, stock, or fund, or by such dealing, buying, or selling, as is allowed by the said Act of Parliament; nor without the consent of the members of the said corporation, in a general court qualified to vote as aforesaid.

The governor, or deputy-governor, shall summon four general courts at least in every year. One in the month of September, one in December, one in April, and another in July.

The governor or deputy-governor shall also summon a

[1] Repealed as to the part in brackets by 35 and 36 Vict., c. 5.

general court, whenever requested to do so by nine members, each holding £500 stock.

If governor and deputy-governor be absent one hour after the usual time of proceeding, at any general court or court of directors, a chairman shall be chosen for that time only, who shall have like privileges as the governor or deputy-governor.

Governor, deputy-governor, or chairman, not to vote in general courts, or court of directors, save when there shall happen to be an equal number of votes on each side.

The Bank of Ireland commenced business at St. Mary's Abbey, June 25, 1783. After the Union, its office was removed to the Parliament House.

In the year 1821, the capital of the Bank of Ireland was increased from £2,500,000 to £3,000,000 Irish currency. The additional sum of £500,000 was taken from the bank's surplus fund and lent to the Government at 4 per cent., to be repaid by the 1st January, 1838. The increased capital was divided among the proprietors, at the rate of £20 for every £100 they possessed. In consideration of this increase of capital, the bank consented to a clause in this Act, whereby persons in partnership, residing fifty miles from Dublin, might carry on the business of banking, although such partnership might consist of more than six partners; but that such partnership should possess no other privilege than being allowed to sue and be sued in the name of a public officer, should Parliament hereafter think fit to grant such a power. This privilege was of little practical use, for, according to the construction put upon the Act, it required that all the partners in these banks should reside in Ireland.

In this year an Act was passed (5 Geo. IV, cap. 73), "to relieve bankers in Ireland from certain restraints imposed

by the provisions of the 29 Geo. II, and to render all and each of the members of certain co-partnerships of bankers, which may be established, liable to the engagements of such co-partnerships, and to enable such co-partnerships to sue and be sued in the name of their public officer."

Those clauses in the former Act that required the names of all the partners to be subscribed to the notes, and which prohibited bankers being traders, are by this Act repealed. Banking partnerships exceeding six persons, and carrying on business at any place beyond fifty miles from Dublin, shall be registered at the Stamp Office, Dublin; and also the names of the public officers in whose names such partnerships sue and are sued. The names of those public officers were also required to be subscribed to all notes and receipts issued by the company. Judgments against the public officers to operate as judgment against the partnership, and execution upon judgment may be issued against any member of the society, and the public officer to be saved harmless.

In the year 1825 was passed the "Act for the better regulation of co-partnerships of certain bankers in Ireland." It was obtained by the directors of the Provincial Bank of Ireland, as the Acts previously granted did not furnish the facilities which the Provincial Bank required for the beneficial exercise of its operations. It confirmed the permission granted by former Acts to establish joint-stock banks at a greater distance than fifty miles from Dublin, and permitted persons resident in Great Britain to become shareholders in such banks. The banks were required to register at the Stamp Office in Dublin an account of the names of the firms, the several partners therein, and the public officers thereof. The partnerships shall sue and be sued in the name of their public officers. Parties obtaining judgments in Ireland may authorize the acknowledgment

of like judgment in Great Britain; and, in like manner, parties obtaining judgment in Great Britain, may proceed thereon in Ireland. Judgments against public officers shall operate against the society, and execution upon judgment may be issued against any member of the co-partnership. All transfers of shares must be registered at the Stamp Office.

In this year, too, an Act of Parliament was passed to assimilate the currency of Ireland to that of England. It is entitled, "An Act to provide for the assimilation of the currency and monies of account throughout the United Kingdom of Great Britain and Ireland." (6 Geo. IV, cap. 79.) The Act recites, that the pound sterling in Great Britain and Ireland respectively is divided into twenty shillings, and the shillings into twelve pence; but the silver coin which represents a shilling in Great Britain is paid and accepted in Ireland for thirteen pence, and the pound sterling of Great Britain is, at the par of exchange, paid and accepted for one pound one shilling and eight pence of the currency of Ireland; and that great complexity of accounts, and other inconveniences, arise from the said difference of currencies. It then enacts, that the currency of Great Britain shall be the currency of the United Kingdom, and all receipts, payments, contracts, and dealings, shall be made in such currency. And all contracts, debts, &c., made or contracted previous to the commencement of this Act, shall be carried into effect, and satisfied by payment in British currency of 12-13ths of the amount according to Irish currency. All duties and public revenues, and all funds and public debts shall be estimated in British currency, and the accounts thereof kept accordingly. After a day to be named by proclamation, British silver and gold coins shall be current in Ireland at the same rate of pence as in Great Britain. On the like proclamation, Irish copper coin shall be brought into the

Bank of Ireland, and exchanged there for British copper coin, at the rate of twelve pence British for thirteen pence Irish, and the Irish copper coin shall cease to circulate. Bankers' notes shall be made payable in British currency. No notes payable in Irish currency shall be re-issued after the commencement of this Act, under a penalty of £50 for each offence. Bankers may deliver into the Stamp Office reissuable notes, payable in Irish currency, and receive in lieu thereof new stamps to the whole amount of the stamps delivered up, if dated within one year previous, or three-fourths if within two years, and one-half if within three years. This Act came into operation on the 5th day of January, 1826.

Public banks may be divided into three classes:—first, Chartered Banks, those which have received a charter from the Crown; secondly, Joint-stock Banks formed under the common law; and thirdly, Joint-Stock Banks formed under the statute law.

The common law of England allowed any number of persons to form themselves into a partnership to carry on banking. At the same time it presented this inconvenience in the formation of such partnerships—in all actions at law it was necessary to state the names of all the individuals who composed the company. Another inconvenience of partnerships formed under the common law was, that all the partners were answerable for the debts of the company to the full extent of their property, not only while they were partners, but after they had ceased to be partners, as far as regards any transactions that took place during the continuance of their partnership. The banks avoided these inconveniences, in the first place, by conducting their business in the names of trustees, in the same way as some of the insurance companies; and in the second place, by inserting a clause in the deed of settle-

ment, that in case the bank should lose one-third or one-fourth the amount of its paid-up capital, it should immediately be dissolved.

The statutes of 5 Geo. IV, c. 73 and 6 Geo. IV, c. 42, with reference to Ireland, and 7 Geo. IV, c. 46, with reference to England, not only, as regards the district outside the area specified by each Act, repealed those Acts of Parliament which prohibited the formation of banking companies having more than six partners, but they also removed the inconveniences of the common law. It was enacted, that it should no longer be necessary, in legal actions, that the names of all the partners should be placed upon the record; but that the company should register at the Stamp Office the name of some one person in whose name they wished to sue and be sued. Any party who had a disputed claim upon the company must sue this public officer, and when he had obtained a verdict in his favour, he might issue judgment against all the partners, in the same way as though he had obtained a verdict against them all. And that he might have no difficulty in ascertaining who were or were not partners, it was required that the names of all the partners should be annually registered at the Stamp Office. The statute law also obviated the second inconvenience of the common law, by enacting that every partner, as soon as he had transferred his share, should be released from all liability as to the subsequent acts of the company, and at the end of three years he was no longer liable for any acts that took place even at the time he was a partner.

The Provincial Bank of Ireland was formed under the statute 6 Geo. IV, c. 42. Few banks have, in so short a time, advanced to so high a degree of prosperity. The circumstances of Ireland at that period were friendly to the growth of such an establishment. The recent abolition

of the union duties, and the introduction of steamboats, had given a stimulus to the trade between the two countries, while nearly all the banks in the south of Ireland had been swept as by a whirlwind from the face of the land. The operations of the bank were also facilitated by the assimilation of the currency, and the measures taken by the Government and the Bank of Ireland to prevent those fluctuations in the exchanges which had previously existed. But the prosperity of this bank must be attributed chiefly to the wisdom and prudence manifested in its constitution and in its subsequent government. The capital was raised chiefly in England, and London was, consequently, made the seat of government. The board of directors was composed of merchants and statesmen, and the latter were taken from the leading men of the two parties into which Ireland was then divided. The local government of the respective branches in Ireland was composed of directors possessing local knowledge and influence, and of managers selected for their experience in banking, and the manager had a veto upon the decision of the board. An inspector was appointed to visit the branches, and to report to the London office.

At the same time the bank had considerable difficulties to contend against. Property in Ireland was considered insecure; political and religious feelings often interfered with matters of business; the habits of the people were not commercial; and the country had suffered so severely from private banking, that confidence was not easily acquired for a new company, the members and constitution of which were but imperfectly known. Before these difficulties had been completely overcome, the bank became involved in a competition with branches of the Bank of Ireland, and exposed to sudden demands for gold arising out of political events.

There is no joint-stock bank of whose rise and progress we have a more detailed account than the Provincial Bank of Ireland. The account is furnished to us in the evidence given before a Committee of the House of Commons by the late secretary, Mr. James Marshall.[1] We recommend the following quotations to the especial consideration of students in practical banking, as showing most minutely the various steps by which prosperity is obtained by banking institutions.

1.—*The Constitution of the Provincial Bank of Ireland.*

"Can you explain to the committee the constitution of the Provincial Bank?—I can. I may make reference to the annual reports of the institution, copies of which, I understand, were furnished to this committee. A report is made to the proprietors on the third Thursday of May in each year.

"By whom is that report prepared?—By a special committee.

"A committee of the board of directors?—A committee of the board of directors, whom it is my duty to attend on

[1] Mr. James Marshall was the accountant of the Provincial Bank of Ireland at its commencement, and in the year 1826 succeeded Mr. Thomas Joplin in the office of secretary. He retired in 1845, upon a pension of £1,000 a-year. The chairman stated to the General Meeting in 1846, that Mr. Marshall's salary was £1,200 a-year, but as £200 a-year was regarded as an equivalent for a house, the Directors considered he had retired upon full pay. The officers of the Bank subscribed to have his likeness taken, and an engraving was presented to each subscriber. After his retirement he became an auditor of an insurance office, and a director of the Oriental Bank. In the latter capacity he paid a visit to Bombay in the year 1847. He died in London on the 14th day of January, 1852.

such occasions, and to be their organ in acting as the clerk of that committee.

"When that sub-committee has prepared the report, what further step is then taken?—It is submitted then to the general court of directors.

"Is it examined by them?—By the general court; it is laid before them, and every part of it is explained to them; and they have it in their power to examine any part, to refer instantly to the books, or the source from which it is drawn. The committee in making it up go very minutely to work, and examine very particularly.

"Then are the committee to understand, that before the report is laid before the proprietors, that report is first submitted to a select committee, reported by them to the general court, and approved of by the general court?—It is. It is, in the first instance, signed by the chairman of the committee when presented to the general court.

"When laid before the proprietors, is it laid before the proprietors on the responsibility of the court of directors?—Completely so.

"Just confine yourself at present to the constitution of the bank.—It may be here proper to state, for the information of the proprietors, the regulations which have been adopted, in the first place, for conducting business in a proper manner at the branches; and, secondly, for the control and superintendence which are exercised over them by the directors in London. First, as to the branches. For the due management of the business at each a suitable house has been obtained, and the following officers have been provided—viz.. manager, accountant, teller, clerk, porter, all of whom find security for their fidelity. Where the scale of business requires it, the number of the inferior officers is increased, but there are only two principal officers at any branch—viz., manager and accountant; and for

securing more effectually the proper discharge of the duties of all, and assisting the manager with advice and information, there has been appointed at each station a board of local directors, consisting, according to circumstances, of three, four, or five gentlemen of the first respectability in the place, who, in order to be eligible, must themselves have an interest in the establishment, by holding ten shares each of its stock. The duty of these gentlemen is to meet daily at a given hour at the bank's office, and, along with the manager, to judge of bills presented for discount, and of all applications for credits. For every act of business of this nature it is necessary that two local directors and the manager be present; and it is provided, that where applications for discounts or credits exceed, in individual cases, a certain fixed amount, or when the manager differs in opinion from the majority of the local board, the matter must be submitted to the decision of the court of directors in London. It is further the duty of the local directors to compare daily the vouchers with the entries in the cash-book, to count, at stated intervals, the cash in charge of the manager, and to certify the returns made periodically from the branch to London.

"Are the committee then to understand distinctly that the local directors, in the case in which the manager, who is the head officer of the society, differs with them, although he may differ singly, are bound to refer those cases to the London board before any decision is come to?—In every case.

"In another contingency it would appear, that where the pecuniary transactions in question exceeded a given amount, that, too, although the board might be unanimous, is brought under the consideration of the London board of directors?—It is.

"What does that sum generally amount to? Is it a

fixed sum, or does it vary according to the circumstances of the different branches?—It has varied according to circumstances; but, generally speaking, from £300 to £500 is considered the extent to which anything in the shape of a credit, other than the discount of a mercantile bill, would go."

2.—*The Selection of Officers.*

"Be so good as to explain to the committee what steps were taken by the Provincial Bank of Ireland in the selection of their various paid officers at the branches?—I believe that is detailed in this said report. The selection of officers in particular was a matter of paramount importance, both on account of the great number required to fill the intended situations in Ireland, and the necessity there was to scrutinize their qualifications as to character and ability. Communications were made on this subject with various gentlemen in different parts of the country, from whom it was expected the best information could be obtained. The prospectus of the society having set out with the resolution that the business should be conducted on the principles which had been so long and so successfully acted upon in Scotland, it seemed desirable to obtain from that country persons trained up in banks there, provided their qualifications in other respects were such as to recommend them. With this view, the secretary (that was not myself at the time) was sent down to Edinburgh in February, for the purpose of making inquiries; and notice having been given in the public papers that persons were wanted to fill situations in the projected establishments in Ireland, a gentleman in the above city was employed to receive applications and to institute the most minute and scrupulous inquiries regarding the character and qualification of those who should apply. Another gentleman

from the same city was also engaged to proceed to London, to assist the directors in the formation and prosecution of a plan for conducting the business, when they should be ready to commence it in Ireland (that alludes to myself). The extensive correspondence which the applications and inquiries, produced by the measures above mentioned, necessarily occasioned, occupied the attention of the directors very closely, and for a considerable length of time, and the result has been that the services of a number of most valuable officers have been secured to the society.

"But at that period was there a greater facility in procuring the services of gentlemen more particularly who had experience in the Scotch banking than there would be subsequently, when there was a more active competition in the establishment of banks?—No doubt of it.

"What description of security were these officers required to give?—Unexceptionable personal security; two persons, at least, generally were joined in a bond for the fidelity of the officer.

"Was there any fixed proportion between the amount of the security required and of the salary paid, or the duties to be performed?—The amount had respect to the duties to be performed rather than to the salary.

"What was the general security that was taken by bond for the fidelity of these officers?—The lowest clerk was £1,000; the highest £10,000, for a manager at the largest branch.

"And that has been enforced by the Provincial Bank with respect to its officers?—The amount of £10,000 has not been required, as we have practically found £5,000 to be a more commandable sum; I would say, within the reach of the description of parties who are aspirants to these offices.

"Now, with respect to the local directors, how were they selected?—It is mentioned here that there should be selected three, four, or five gentlemen of the first respectability in the place, of commercial knowledge, whenever those could be obtained; if having had that commercial knowledge, and being disengaged from business, they were considered as so much the more eligible.

"But in the selection of local directors, so far from excluding persons by reason of their having commercial or banking knowledge, are the committee to understand that such parties were preferred?—Where they had it, and were not understood to be in a situation to require banking accommodation for themselves.

"You have stated that the local directors were required to take ten shares each, at the least?—Yes.

"Will you have the goodness to state what the reason was that they were required to take those shares?—In order that they might have a greater interest in the establishment; feel a personal interest. I must say we have not, in every instance, been able to get gentlemen of that description. We have, in some instances, appointed gentlemen who, from various causes, declined to become shareholders; at least, we have elected gentlemen to be local directors without requiring the fulfilment of that condition. There are some instances at present of gentlemen who are so; but no doubts regarding the solvency of the bank ever deterred any of them."

3.—*The Choice of Directors.*

"Now tell us how they are appointed?—The directors in London were, of course, originally appointed by the gentlemen who associated together for the purpose of forming this establishment; and they continued, with the

approbation of the meeting, until a certain time, when, by the deed of settlement which was afterwards prepared, four were to go out every year.

"In the vacancy of the four, who appoints their successors?—The proprietors generally; the general meeting of proprietors.

"Are they re-eligible?—They are declared by the deed of settlement to be re-eligible.

"Are they recommended to the court of proprietors by the court of directors?—They are; they have been virtually so: and I beg to refer to one of the annual reports, which gives an explanation upon that point. It is in the report made the 17th of May, 1827, in which it is stated: 'The directors have now to advert to a circumstance of some importance as connected with the constitution of the society. By the deed of settlement, the number of directors was limited to twenty. Since the completion of the deed, that number has been reduced by death or resignations to sixteen; and the directors having found by experience that the latter number is quite sufficient to insure a due attendance for the efficient management of the business of the establishment, have not thought it necessary to enforce the terms of the deed by proposing the election of new members; and they think themselves now justified, by past experience, in unanimously recommending to the court of proprietors to limit the number of directors for the ensuing year to sixteen. The directors may add, that this arrangement will be attended with a considerable saving of expense; and, in conclusion, they beg to state to the proprietors an opinion in which they also unanimously concur—viz., that in future elections, it will greatly conduce to the harmony and cordiality which it is so desirable should prevail amongst the directors themselves, as well as to the good management of the bank's affairs, if a re-

commendation shall be made by them to the proprietors in favour of those candidates whom, after due inquiry, they shall find to be the best qualified to fill the situation.'

"Have those recommendations been generally complied with by the proprietors?—Always.

"Uniformly, without exception?—Uniformly; it has uniformly been acquiesced in. Two or three candidates had upon more than one occasion started, but when the matter was explained to them, they have uniformly acquiesced in it. It is necessary to state, to complete this, that the recommendation to limit the number of directors to sixteen was afterwards the subject of a special provision by an additional deed of the proprietors; therefore the number cannot be extended beyond sixteen without altering the deed.

"Are the directors paid for their attendance?—They are.

"What is the amount of payment which they receive?—It is so regulated that no director can receive above £250 a year, the director in London, I mean, were he attending at every possible meeting that he could.

"Is the payment an annual payment, or proportionate to the attendances?—Proportionate to the attendances, ascertained every quarter.

"According to the number of attendances, so the parties are paid?—Yes, according to the attendances.

"Was that sanctioned by the proprietors and by the society?—The deed of settlement contains a provision allowing the directors to take the sum of £5,000 as remuneration."

4.—*The Daily Committee.*

"Will you state how they transact their business?—By meeting daily in committee (a general committee), which is open to all to attend; but in order to be a quorum there must be three present; and by a weekly court, held each Friday, at which all ought to be present.

"Is there a record in writing of all the directions and the acts of that special committee?—There is.

"Are each of those acts brought under the examination and review of the general court on Friday?—At the weekly court they are; the minutes are read over.

"Is the question put upon the confirmation of those minutes, or is it open to the general court to vary or alter them?—The question is specially put by the chairman of the weekly court, whether it is the pleasure of that court to confirm the minutes of the past week which have been read.

"Have you known instances in the management of the bank in which there have been any variations upon the proceedings of the committee proposed by the general court, so as to show that it is an active as well as a theoretical superintendence?—I have seen instances where the subject has been brought under revision, and which has produced an alteration of the resolution of the committee.

"Having now explained to the committee the formation of your local administration at the branches, and your general administration in London, will you state what the course of proceeding is, to insure to the court in London a knowledge of that which takes place at the different branches?—I read from the report already referred to: 'Regular advices of the proceedings at the branches are transmitted by the managers to London by post every

second or third day, according to circumstances; and at the end of each week a complete statement of the whole transactions is made up, and forwarded by the mail-coach. These returns are first examined by the officers of the London establishment, and then submitted to the directors. For giving the necessary orders arising out of these communications, for judging of all matters referred to them from the branches, for disposing of the bank's funds in London and Dublin, and for the discharge of all other duties implied in the exercise of a superintendence over the whole establishment, whether in Ireland or in London, the directors hold regular and daily meetings.'

"Are the accounts which are sent from the branches accounts in detail of the whole of the operations of the bank?—They are.

"Are they, in fact, transcripts of the accounts of the bank from period to period?—They are so; with this explanation regarding the current accounts of parties holding accounts with the bank, every particular draft or receipt is not sent to London, or rather the entries of these, I mean, are not copied or sent to London; but there is this check on the operations of the branches, the exact balance of every man's account at the end of each week is given, and forms part of an abstract of the balance-sheet which is sent forward, and which must agree; therefore, if it were wrong, it would at once detect itself.

"Then no variation can take place in the actual balance without the attention of the court being at once called to it?—None can.

"And is the name of each individual to whom these advances are made from time to time brought under the special notice of the court of directors in London?—Yes; by the following process. The branches are divided amongst the directors, so many allotted to such a sub-

committee, who take up the affairs of these branches each week in succession, and examine all the bills that have been discounted, the advances that have been made of any description, and the balance of each man's account, whether in his favour or against him."

5.—*The Inspection of Branches.*

"Have you any system of inspection by which you are enabled from time to time to verify the correctness of the proceedings of the branches?—We have. Besides having a half-yearly balance-sheet made out with all the details of the affairs of each branch at the time, and which is scrupulously examined at London, there is an inspector (two at present) whose duty it is to go through the branches and to examine personally and verify every voucher and every particular, and to remain at the branch until they are fully satisfied that all is right.

"Are the visits of your inspectors at stated and known intervals, or is any branch at any one moment liable to the visit of an inspector, and to an immediate examination and verification of their accounts and bills and balances?—Every branch is so liable to be visited; there is no previous intimation given, except the visit be for some particular purpose which, by a representation from the branch, calls on the inspector to go.

"As an additional security, have you yourself, or any of the directors, been accustomed to visit the branches, and to report thereon?—I have myself every year, and sometimes oftener than once a year, even twice or three times in a year, gone to Ireland, and have gone through the whole branches, in fact, more than once, at different times; and on all occasions have made examinations which appear to me to be necessary; and besides that, the

directors have in person repeatedly visited the branches; deputations of the London directors, I mean, have so done."

6.—*The Declaration of a Dividend.*

"Will you explain to the committee what steps you take before you declare a dividend?—We have regularly a balance every half-year; the dividend has only been declared once a year, at the termination of the year, which is in March; our year ends in March. Prior to that period, each manager is directed to send up a special report of every obligation which is outstanding, or of any which is doubtful, describing particularly in the report every party to such obligation; that is preparatory to going further into the matter; then when the balance at the end of March is completed, a complete balance-sheet of every branch is made up and sent to the bank, with a more detailed report. A special committee of the directors is appointed to examine those, and they go minutely through them, and weigh every outstanding debt, and strike off everything that is considered to be irrecoverable; they then consider in what degree the reports of the managers represent every other outstanding debt to be recoverable, either in full or in part; and when all that has been done, they add generally a sum to cover still any possible omission, and it is only then that the fair profits of the year are considered to be ascertained.

"Can you inform the committee how far your calculations, your annual calculations of bad and doubtful debts, have or have not been below or above the mark?—In many instances our allowances have exceeded what has turned out to be the real loss; for, as I mentioned before, the directors, in order to be more secure, have been in the

practice of making an additional deduction over all the deductions made by the officers at the branches.

"Have the proprietors any power under your deed of settlement of naming any auditors, or having any examination of those accounts, so as to verify their fidelity?—We have no auditors, but there is a provision in the deed of settlement by which a certain number of proprietors may call for a further investigation of the accounts, if they are dissatisfied."

7.—*The Causes of its Prosperity.*

"Do you think there is anything peculiar in the construction of this bank which has insured its being correctly and well managed up to the present time, or that it has rather arisen from the 'happy accident' of the directors who were selected having been honourable and correct men of business?—I conceive the very first and indispensable thing was an exceedingly respectable board of directors formed in the first instance, and which has always been maintained. In the next place, that the system of accounting that was adopted, and the check on the operations of the different branches, which has not been departed from, has most materially contributed to that good result. In the next place, there was an exceedingly good field for banking when we commenced, for Ireland was very destitute of good banks at the time, the Bank of Ireland operations having been confined only to Dublin. Therefore, from all those concurring circumstances, I conceive the prosperity of the bank has resulted."

To these causes we may add one more, stated in the Report delivered by the directors to the proprietors in the year 1836,—the non-interference of the shareholders in the distribution of the profits:

"To this desirable position the affairs of the bank have been conducted, as the directors have great pleasure in acknowledging, by the uniform support and continued approbation of the proprietors, who, far from manifesting any impatient desire to participate in the reserved profits, have always relied with confidence on the opinion of those by whom the working of the establishment was superintended, feeling assured that whenever such participation was clearly expedient, it would not be withheld."

Laws of the Currency in Ireland.—From what we have already said of the laws of the currency, those of our readers who are acquainted with Ireland will be able to judge beforehand of the revolutions of her circulation. Being purely an agricultural country, the lowest points will of course be in August or September, immediately before the harvest, and the commencement of the cattle and bacon trade. Then it rises rapidly, till it reaches its highest point in January, and then gradually declines. As an agricultural country, we should naturally expect that during the season of increase the circulation would expand most in the rural districts; and so we find that the circulation of the Bank of Ireland, in Dublin, expands very moderately—that of her branches, which are located chiefly in large towns, expands more—while the circulation of the joint-stock banks, which are located in the agricultural districts, receives the largest increase. Again, the purchases and sales of agricultural produce are known to be in small amounts; and hence the notes of the smallest denomination receive the largest relative increase. The annual changes of the Irish circulation are governed chiefly by the produce of the harvest, and the prices of agricultural products. These are the laws of the circulation of Ireland.

On this subject I may quote my own evidence before the Committee on Banks of Issue:

"I have told the Committee that I was formerly manager of a joint-stock bank of issue in Ireland, and I have attempted to discover the laws which regulate the circulation of that country, by ascertaining the highest and lowest amount of the circulation in each year. This, which I have in my hand, is a table, showing the circulation of the Bank of Ireland (including branches), the separate circulation of the branches alone, and the circulation of the Irish joint-stock and private banks, on the last Saturday of April, August, and December, of the years 1834 to 1839. It will be observed that those periods are the same as those which I have referred to in the circulation of the English country banks. The law of circulation appears to be different, but they agree pretty nearly in this, that the lowest point is the latter end of August; but the highest point in Ireland is generally the end of December or the beginning of January, and from December, or the beginning of January, it declines; so that the country circulation of England is advancing eight months and declining four; but the circulation of Ireland is advancing four months and declining eight.

"From whence is this table compiled?—From Appendix, Nos. 32 and 33. This table shows that the circulation of Dublin does not vary much; it shows that the circulation of the branches of the Bank of Ireland varies more; and that the circulation of the joint-stock and private banks in Ireland varies considerably more.

A TABLE, *showing the* CIRCULATION *of the* BANK *of* IRELAND *(including Branches); the Circulation of the Branches alone; and the Circulation of the Irish Joint-stock and Private Banks; on the last Saturday of April, August, and December, of the Years* 1834 *to* 1839.

I.—BANK OF IRELAND AND BRANCHES.

	1834.	1835.	1836.	1837.	1838.	1839.
	£	£	£	£	£	£
April . .	3,922,300	3,798,500	3,614,100	3,332,300	3,398,400	3,536,400
August .	3,452,800	3,198,700	3,133,500	2,921,600	3,055,800	2,981,800
December	3,926,800	3,574,200	3,481,100	3,265,700	3,474,500	3,192,200

II.—BRANCHES OF THE BANK OF IRELAND.

April . .	No separate account kept at this time.			..	1,357,600	1,572,000
August .				1,056,200	1,257,600	2,211,900
December				1,342,300	1,695,600	1,464,000

III.—JOINT-STOCK AND PRIVATE BANKS.

April . .	1,386,165	1,517,648	2,083,431	1,798,724	2,366,774	2,588,377
August .	1,140,654	1,264,572	1,928,900	1,480,240	1,881,906	1,982,122
December	1,666,269	1,959,542	1,787,586	2,204,286	2,972,034	2,629,205

"It will be observed, that in the year 1836, with regard to the joint-stock banks, there was a departure from the law, which usually increases the Irish circulation very rapidly between the months of August and December; for in 1836 the Agricultural and Commercial Bank of Ireland stopped payment; that brought on a run for gold upon the other banks, and thus the circulation of those banks became reduced. This is the only year in which there is not a very considerable increase in the circulation of the joint-stock banks of Ireland between August and December.

"To what do you attribute this uniform increase of the Irish circulation towards December?—I attribute it to the

trade in corn, and bacon, and cattle, which commences in the months of September and October in every year; the produce of the harvest commences to be brought to market in September; but the bacon is made in the beginning of October. The bacon must be made in cold weather, and therefore pigs are reared so as to be fit for killing by the 1st of October; and in the beginning of October the provision merchants send out their men to purchase pigs at the different markets, and they get notes from the bank. The cattle trade is conducted in the same way; men go to the market to buy pigs and cattle, and take them over to Bristol and Liverpool, but chiefly to Bristol from the part where I was. Those notes are chiefly issued in three ways. During the summer, the merchants, having their capital unemployed, lodged it as deposits in the bank; then, when the season for trade commenced, they drew out their deposits, in the form of notes. Afterwards, they brought us bills upon their factors in London, and our notes were issued in discounting those bills which they had drawn against the exportations of bacon and cattle. The dealers took their pigs and cattle over to Bristol, and sold them in the various markets and fairs in the west of England, and received the notes which were circulating in that district, and took them to Mr. Stuckey, and got a letter of credit upon me, payable on demand, for the amount. So that our notes were issued, in the first place, by the withdrawal of deposits; secondly, for the discounting of bills on London, drawn against the exports which were made; and thirdly, for the payment of letters of credit which had been obtained by the parties who had sold Irish cattle in the English markets. The notes were, therefore, drawn out by the trade of the country, and of course it was not in our power to withhold issuing those notes, unless we wished to cramp the trade of the country."

Laws of the Currency in Ireland, since 1845.[1]—In the year 1845 an Act was passed for the regulation of bank notes in Ireland. The average amount of notes that had been in circulation during the year ending May 1, 1845 (£6,354,494), was made the fixed or authorized issue. For any amount beyond its authorized issue, each bank was required to hold an equal sum in gold or silver coin, the silver not to exceed one-fourth of the whole. The Act came into operation on the 6th Dec. 1845, and from that period each bank has made returns to the Government, stating the average amount of notes in circulation during the preceding four weeks, distinguishing the notes under £5 from those of £5 and upwards, and stating the amounts of gold and silver coin it held in its vaults. These returns are made by all the banks of circulation in Ireland. These are —the Bank of Ireland, the Provincial Bank of Ireland, the National Bank, and the three banks in Belfast, viz., the Northern Banking Company, the Belfast Banking Company, and the Ulster Banking Company.

We possess these returns for every four weeks from Jan. 1846, to the present time. By adding together all the returns made during each year, and then dividing by thirteen, we obtain, of course, the average amounts in circulation from 1846 to the year 1851, inclusive. I have also added the proportion per cent. these averages bear to the certified circulation of £6,354,494. The following are the average amounts of circulation:

	Average Circulation.	Proportion to Certified Circulation.
1846 . .	£7,259,948 . .	114·25
1847 . .	6,008,833 . .	94·55

[1] This article is an abstract of a paper read before the Statistical Section of the British Association, at their meeting held at Belfast in the year 1852.

	Average Circulation.	Proportion to Certified Circulation.
1848 . .	£4,828,992 . .	76
1849 . .	4,310,283 . .	67·83
1850 . .	4,512,444 . .	71
1851 . .	4,462,909 . .	70·25

It appears that, if the authorized issue be represented by the number 100, the actual circulation for the six years, 1846 to 1851, inclusive, will be represented by the numbers 114, 94, 76, 67, 71, 70. The question naturally occurs to us—What is the cause of this great falling off in the annual circulation since the passing of the Act of 1845? In reply, we may observe that the annual productiveness of the harvest would affect the amount of notes in circulation. From the description of the harvests given in the annual reports of the Provincial Bank of Ireland, we learn that the years 1846 and 1848 were disastrous in regard to the produce of the harvest; and we consequently find, as we should naturally expect, a falling off in the following years in the circulation of bank notes. We may also observe, that a bad harvest in one year may, by the distress it produces, cause a less production of commodities in several following years, and hence there may be a less demand for bank notes. In a bad harvest the farmer consumes his own produce instead of selling it, and thus requires not the use of notes. If his potatoes are destroyed he will consume his grain. The distress of the farmer also diminishes the instruments of reproduction. If he has no potatoes he can rear no pigs. An abundant crop of potatoes produces in the following year an abundant crop of pigs, but a famine of potatoes will be followed by a famine of pigs; and hence the distress of one year may have an effect upon the circulation of notes in several succeeding years. After the failure of the potato crop in 1846, the exportation of swine

was reduced from 480,827 in 1846, to 106,407 in 1847. The potato crop again failed in 1848. The number of swine exported in 1848 was 110,787; in 1849 it was only 68,053.

We may also observe, that a reduction in the quantity of commodities produced may be caused by a reduction in the number of producers, and this would occasion a less demand for bank notes. It appears, from the Census of 1841 and 1851, that, between these two periods, the population declined 1,659,330, or at the rate of 20 per cent.; and calculations have been made to show that the whole of this decrease had taken place since the year of the famine, 1846. Such a decrease, from whatever cause, must be attended with a decrease in the commodities produced and consumed by those individuals, and will consequently have occasioned a less demand for banknotes to pay for those commndities. If the lands previously occupied by this departed population remain uncultivated, there is a direct decrease in the agricultural produce. Such might be the effect where the occupants died. Emigration might produce an additional effect. The emigrants, before their departure, would change all their bank notes into gold to take with them, and thus would occasion a further reduction of the circulation. This decrease of the population occurred chiefly among those who had but small holdings in land. Those small cultivators are compelled to bring their produce to market immediately after the harvest, and hence the circulation rises in September and October. From these small holdings, too, the produce is brought to market in small quantities—"each man brings his sack of oats, or two or three pigs, to market"—and hence the circulation, thus occasioned, must consist chiefly of small notes. We may further observe, that the amount of notes which circulate in a country will

also be affected by the quantity of commodities exported, and the quantity imported. The season in which there is the greatest export of commodities is the season of the highest circulation. But importation withdraws the notes previously in circulation. The effect of diminished exports and increased imports is referred to in the Reports of the Provincial Bank of Ireland, every year from 1847 to 1851; and Mr. Murray states, in his evidence before the Committee on Commercial Distress, that not only was the amount of notes reduced, but also that of silver.

Thus we find that the reduction in the amount of notes in circulation in Ireland has been preceded or accompanied by a reduction in the amount of commodities produced, occasioned by a reduced productiveness in the land actually cultivated, a destruction of the instruments of reproduction by the distress thus occasioned, a reduction in the number of producers by deaths and emigration, and the exportation of an increased portion of its capital in exchange for food. But there is another circumstance that concurs in powerfully producing the same effect—that is, the prices at which the commodities brought to market are sold.

The failure of the crops in Ireland led the late Sir Robert Peel to introduce "An Act to amend the Laws relating to the Importation of Corn." It is 9 & 10 Vict., cap. 22, and was passed June 26, 1846. A large reduction was made in the duty immediately; and it was enacted that, after the first day of February, 1849, the duty on wheat, barley, oats, &c., should be only 1*s.* per quarter. And in consequence of the increased distress in Ireland, another Act was passed, in January, 1847 (9 Vict., cap. 1), to suspend, until the first day of the following September, all duties on the importation of corn. In consequence of these Acts, large importations took place, and the prices

gradually declined. I have no means of ascertaining the average prices of grain throughout Ireland, but I have obtained from a London corn-merchant the average prices of wheat, barley, and oats, for each year from 1841 to 1851, and taking in each case the prices of the year 1845 as represented by 100, I have calculated the variations per cent. in the subsequent years. On comparing the years 1845 and 1851, we find that the circulation has declined 35·78 per cent., the price of wheat has declined 24 per cent., of barley 21·85 per cent.; and of oats 17·40 per cent. If we compare the year 1841 with 1851, the decline of the circulation will only be at the rate of 16·7 per cent., while the price of wheat shows a decline of 40 per cent., of barley 25 per cent., and of oats 17 per cent.

From the whole, we infer that the difference between the amount of bank notes circulating in a country at two distant periods cannot be regarded as any correct test of the condition of its inhabitants at those periods, unless we take into account all the circumstances by which that difference is attended—that the decline of the circulation of bank notes in Ireland, from the year 1845 to 1851, is no accurate measure of the distress that has existed in the country, as other causes besides distress have concurred in producing that effect—that in comparing the circulation of 1845 and 1851, we are making a comparison unfavourable to the country, as the year 1845 was a year remarkable for the high amount of its circulation—and that we should indulge in no gloomy inferences as to the condition of the country even if the circulation should never recover its former amount.

Having considered the changes that have taken place in the annual amount of notes that have circulated in Ireland since the passing of the Act of 1845, I shall consider the monthly changes in the amount of the circulation.

Let us take up the returns, and look at any year we please, and we shall find that all the months vary from each other. Beginning at January, the amount of the circulation usually declines—slowly at first, but more rapidly in May, June, and July, until, by the end of August, we arrive at the lowest point. Then, in September, it begins to ascend, and goes on increasing till January, and then again declines till August. Now, let us inquire what are the laws which regulate these monthly variations. I stated that the annual variations were caused by variations in the quantity and price of agricultural produce. But, as no notes could be put into circulation until this produce is brought to market, the monthly circulation must depend upon the quantity of produce brought to market within the month. Now, it has been the custom in Ireland to commence bringing the produce to market immediately after the harvest. Hence arises the increase of the notes in September, and their further increase in the following months. But in the beginning of the year the landlords collect their rents, and receive from their tenants the notes for which this produce has been sold; this brings the notes back to the bank, either to be placed to his credit (if he have an account there), or, otherwise, in exchange for a letter of credit on Dublin, or a bill on London. The circuit of a note, then, is this:—It is obtained from the bank by a corn-merchant, who pays it to a farmer for his corn, which he ships to England. The farmer afterwards pays the note for rent to his landlord, who brings it back to the bank. Every month the bank is issuing and retiring notes; but, from August to January, it issues more than it retires, and hence the amount of notes in circulation increases; and from January to August it retires more notes than it issues, and hence the circulation falls.

We may notice another feature suggested to us by these Public Returns. We observe that a portion of the circulation consists of notes of £5 and upwards, and another portion of notes under £5; and it may be useful to inquire if these two classes of notes are subject to the same laws, and whether they rise and fall at the some time and in exact proportion to each other. Viewing the monthly circulation, we observe that the small notes, like the large notes, are at their lowest amount about the month of August, and at their highest amount about January. But we observe, also, that from August the small notes increase more rapidly than the large ones, and after January they decline more rapidly; so that in every year the proportion of small notes in circulation is greater in January than in August. It may be observed, too, that the circulation of the Belfast banks includes a much larger proportion of small notes than is contained in the circulation of the other banks. To show this, it will be sufficient to analyze one of these returns. Upon the total circulation of all the banks, the proportion of small notes on the 7th of August, 1852, is 49·39 per cent.; upon that of the Bank of Ireland, 34·73 per cent.; the Provincial Bank, 58·82 per cent.; the National Bank, 59·93 per cent.; and the Belfast Banks, 86·55 per cent.

I have one feature more to notice in these returns—that is, the amount of gold and silver kept by the banks, in order to meet the payment of their notes. For several years past the Act of 1845 has not required the Irish banks to keep any amount of gold or silver, for they have always been below the authorized circulation; but another Act, passed in the year 1828, through the influence of Mr. Spring Rice—(Lord Monteagle)—requires that all notes should be payable in gold on demand at the place of issue. The gold and silver kept by the banks have only been to

the amount that they deemed necessary or prudent for the purposes of business.

We observe from these returns that the annual average amount of gold and silver kept by all the banks has varied from 29 to 36 per cent. We observe, too, that in the years when the circulation has been low, the amount of gold and silver has been higher in proportion than in those years when the circulation has been high. Taking the average of years from 1847 to 1851, the *lowest* amount of gold, in proportion to its circulation, has been kept by the Bank of Ireland. The proportion varies from 24 per cent. in 1851, to 30 per cent. in 1849. The highest proportion has been kept by the Provincial Bank. It has varied from 38 per cent. in 1851, to 52 per cent. in 1849. We may also state that, in the monthly variations, the lower the circulation the higher the proportionate amount of gold and silver. This arises, it may be presumed, from the circumstance that the banks do not vary the amount of their gold and silver with every variation of the circulation. The proportion of silver to gold kept by all the banks, has varied from 20 to 33 per cent., but the proportion varies very much with different banks.

The amount of gold necessary to be kept against any given amount of notes in circulation is purely a question of management, and depends upon a variety of circumstances. The degree of public confidence the bank may have acquired, the excitable character of the population, the state of commercial credit, the facility of obtaining supplies, and the rapidity of communication with its branches, are all to be taken into calculation by a prudent banker. Gold can now be so readily obtained from England by means of steamboats, and distributed throughout Ireland by means of railways, that so large an amount may not be so necessary as formerly. The railways and

the electric telegraph are useful to bankers, and present a striking instance of the utility of scientific discoveries to men of business.

Abolition of Small Notes.—The following is the report of the Select Committee of the House of Commons, made in 1826, respecting the abolition in Ireland of notes under £5:

"With respect to the circulation of Ireland, the inquiries of your Committee have been less extensive than those which they have instituted with respect to Scotland.

"The first law in Ireland which restrained the negotiation of promissory notes, was an Act passed in the Irish Parliament in the year 1799.

"The preamble recites that various notes, bills of exchange, and drafts for money, have been for some time past circulated in lieu of cash, to the great prejudice of trade and public credit; and that many of such notes are made payable under certain terms, with which the poorer classes of manufacturers and others cannot comply, unless by submitting to great extortion and abuse. It adds, that the issue of such notes has very much tended to increase the pernicious crime of forgery; and the Act proceeds to apply to notes between the value of £5 and 20*s.* similar restrictions to those which had been applied to such notes issued in England by the Act which passed in the year 1777. It permits, however, during the suspension of cash payments by the Bank of Ireland, the issue of bank-post bills, bills of exchange, and drafts under certain regulations, for any sums not less than three guineas. This Act did not extend to the Bank of Ireland.

"In 1805, this and some other Acts which had passed in the interim relating to the issue of small notes, were repealed; and notes under 20*s.*, which had been previously

admitted under certain regulations by the Act of 1799, were declared void.

"There is at present no law in force imposing any limitation to the period for which notes for a sum not less than 20*s.* may be issued in Ireland.

"A tolerably correct estimate of the amount of promissory notes, above and below £5, circulating in Ireland, may be formed from the subjoined returns made by the Bank of Ireland, and by other banks at present established in that country.

"Bank of Ireland notes.—An account of the average amount of the Bank of Ireland notes of £5 and upwards (including bank-post bills) for the years 1820, 1821, 1822, 1823, 1824, and 1825:

	Irish currency. £	*s.*	*d.*
"Notes and post-bills of £5 and upwards	3,646,660	19	6

"An account of the average amount of the Bank of Ireland notes under the value of £5 (including bank-post bills) for the years 1820, 1821, 1822, 1823, 1824, and 1825:

	Irish currency. £	*s.*	*d.*
"Notes and post-bills under the value of £5	1,643,828	0	5

"It appears from the evidence that a practice prevails in Ireland of issuing notes for the payment of sums between one and two pounds, for three guineas, and other fractional sums.

"Your Committee see no public advantage arising out of this practice, and they are of opinion that it ought to

be discontinued, as it tends to dispense with the silver coin, and practically to exclude it from circulation.[1]

"Your Committee hesitate, in the present imperfect state of their information, to pronounce a decisive opinion upon the general measures which it may be fitting to adopt with respect to the paper currency of Ireland.

"Although they are inclined to think that it would not be advisable to take any immediate step for the purpose of preventing the issue of small notes in Ireland, their impression undoubtedly is, that a metallic currency ought ultimately to be the basis of the circulation in that country.

"It will probably be deemed advisable to fix a definite, though not an early period, at which the circulation in Ireland of all notes below £5 shall cease; and it is deserving of consideration, whether measures might not be adopted in the interim for the purpose of insuring such a final result by gradual, though cautious, advances towards it."

The following is a summary of the evidence given before the Committees of the two Houses of Parliament, as to the effect of abolishing the small note circulation in Ireland:

1. Small currency is necessary to carry on the commercial transactions of the country.

JOHN ACHESON SMYTH, Esq., *Agent for the Belfast Bank at Londonderry.*

"In Lancashire, I believe all the raw materials are bought in large parcels, and by bills. In Ireland, the raw material is all bought in small parcels, and all in small notes. In Lancashire, there is only cash wanted to pay

[1] The Act 8 & 9 Vict., c. 37 (1845) prohibits under penalties the issue of notes for fractional parts of a pound.

the workmen, but we want it both to pay the workmen and to buy the raw material. The provision and grain that we send to England are also bought in small notes, and we are reimbursed by drawing bills for our shipments."[1]

PIERCE MAHONY, Esq., *Solicitor to the Provincial Bank of Ireland.*

"If the banks were prevented issuing notes under the amount of £5, would any inconveniences arise in conducting the trade of the south of Ireland?—The trade of Ireland generally, and especially in the south of Ireland, would be greatly inconvenienced, and the growth of manufactures would be decidedly checked, if not destroyed, by such a measure. From the great subdivision of land in Ireland, and particularly in the south and west (where the population is almost exclusively agricultural), the produce is disposed of in small portions, scarcely ever representing £5, and almost universally under that amount. I am of opinion that the withdrawal of all notes under that amount would have the effect of curtailing the accommodation the banks now afford to the public to a ruinous extent, and that the trade of the country under such circumstances would not afford profitable employment for banking capital to any extent; and, therefore, I should anticipate the withdrawal of such establishments, except, perhaps, at Cork and Belfast. In the south and west of Ireland, from the nature of the provision and corn trade, the chief demand for notes or for gold commences in October, and continues until March, when that trade is nearly over for the season. From March until October the butter trade is almost the only one in the south and

[1] Commons' Report, p. 77.

west of Ireland; and as that trade would not employ all the capital that is required in the winter season, the effect would be, if sovereigns were substituted for small notes, that the extra supply required for the corn, beef, and pork trade, must remain idle in the banker's chest, or be remitted at great risk and expense for employment elsewhere during the summer and autumn.

"Do you think, if a metallic circulation were adopted, that there would be a difficulty in maintaining that metallic circulation?—I do; because the trade in the south and west of Ireland is periodical; the remittances from those districts of Ireland would force the gold away at certain periods, and it must be returned at others, with considerable expense, to meet the trade of the country." [1]

2. A gold currency would be more inconvenient than notes, and would not be so well liked by the people.

LEONARD DOBBIN, Esq.,[2] *Agent for the Northern Banking Company of Belfast, at Armagh.*

"Do the people of the north of Ireland manifest any wish for gold in preference to notes, or for notes in preference to gold?—They decidedly prefer notes, and the weavers have refused to carry gold out of the market lately.

"Can you assign any reason for this preference?—There are many reasons that I could assign. The bank notes are now the established currency; the people are perfectly acquainted with them. If a man should lose notes, or a house be robbed, or if there is a forgery, it would be much better for them to trace notes than it

[1] Commons' Report, pp. 250, 251.

[2] This gentleman was afterwards agent for the Bank of Ireland at Armagh, and M.P. for that place.

would gold. I have often assisted poor people in tracing notes that were robbed, and forged notes, whereas the gold could not be traced so readily. Another reason I would give is this, guineas became light, and were troublesome to the people. When standing beam there was 1*s.* charged, and when lighter than standing beam 2*s.* 6*d.*; and when gold was scarce, and bank notes not a legal tender, the land agents refusing to take anything but gold, the tenants were obliged to pay from 1*s.* to 4*s.* on a guinea, discount. Some agents would only take gold" [1]

J. A. Smyth, Esq., *Linen Merchant, and Agent for the Belfast Bank at Londonderry.*

"I am in the habit of employing my linen buyers to go to the country markets, and I must supply them with the week's money before they start, perhaps five hundred or a thousand pounds. They have to go through the interior of the country, and do not return for a week. They make their purchases all in small quantities, and it is more convenient for them to carry notes than gold." [2]

Arthur Guinness, Esq., *Director of the Bank of Ireland.*

"I conceive, that with the persons who handle the circulation of the country, there is a decided preference in favour of small notes over cash in every respect. I speak from mine own experience; for I remember perfectly well, before the restrictions upon cash payments, when gold was a great inconvenience in trade. I speak of those who handle the currency of the country, among whom I think

[1] Commons' Report, p. 243. [2] Lords' Report, p. 7.

the preference is in favour of the small notes, as more convenient, more portable, and less liable to counterfeit. I conceive these to form the general grounds of preference." [1]

3. The profits of the banking establishments would be so much diminished, that they could not extend the same accommodation to the agricultural and commercial classes.

W. P. Lunnel, Esq., *Director of the Bank of Ireland.*

"If the notes under £5 were prohibited, would the profits of the Bank of Ireland be materially affected by such prohibition?—I should expect that they would suffer: they must sacrifice a certain profit.

"Have you considered to what extent the profits of other bankers would be affected?—I should expect that the principal circulation of the country bankers is in small notes, and therefore in that proportion they would suffer." [2]

John Holmes Houston, Esq., *Banker at Belfast.*

"If all the notes under £5 were prohibited to be issued, would it be worth while, in your opinion, to keep the establishment of a bank at Belfast?—I do not think it would, except by carrying it on in the same manner as it formerly was—to keep a discount office, charging a commission on discounting bills, because £5 notes would not circulate. Then our circulation would be so trifling it would not answer." [3]

H. A. Douglas, Esq., *Director of the Provincial Bank of Ireland.*

"I consider the cash account system and the one-pound

[1] Commons' Report, p. 237.
[2] Lords' Report, p. 108.
[3] Ibid., p. 35.

circulation so connected, that if the notes are withdrawn, it is understood that our establishment will not grant any further cash-credits. The business which we carry on, even if we charged a higher rate of interest, or a commission, would not be of sufficient magnitude to repay us for the expense of our establishment, independent of our notes. If the issue of small notes be withdrawn, then we cannot afford to allow interest on deposits." [1]

4. The abolition of small notes would prevent the investment of British capital in the present banking establishments.

T. S. Rice, Esq., M.P. (Lord Monteagle), *Director of the Provincial Bank of Ireland.*

"Is it your opinion, that if all notes under £5 were abolished, a considerable inconvenience would arise in the ordinary traffic in Ireland?—I conceive that it would. I conceive that the first effects of the extinction of all notes below £5 would be a much more considerable diminution of the general mass of the circulating medium in Ireland than in England.

"I fear extremely that if anything were to occur which materially diminished the profits of our establishment, it would have the effect of depriving us of one of the chief benefits of the establishment, namely, the support and control of British capitalists, and conducting the bank by British merchants, and upon British commercial principles. I conceive a rate of profit, rather higher than the average rate of profits, is essential to induce persons so circumstanced to engage in such a business, more particularly when it is considered that there is no limitation of responsibility by the grant of charters." [2]

[1] Lords' Report, pp. 24, 26, 27. [2] Ibid., pp. 47, 51.

5. The gold currency would be sent out of the country, whenever it bore a premium in England.

HENRY H. HUNT, Esq., *Local Director of the Provincial Bank of Ireland at Waterford.*

"What do you think would be the consequence of a law which prohibited the issue of notes below £5, both by the Bank of Ireland and by any other banking establishment in Ireland?—I should think it would be very hazardous indeed: I should very much apprehend that the gold circulation would at times be *withdrawn* in a very great degree *from the country*, whenever gold was wanted in London; for instance, A SMALL PREMIUM UPON A SOVEREIGN WOULD INDUCE A VAST QUANTITY OF THEM TO BE BROUGHT OUT OF IRELAND.

"Have you ever known instances of quantities of gold being brought over from Ireland to this country, and persons making a regular traffic of it?—I have." [1]

6. The proposed measure would cause general distress, and prevent the progress of enterprise.

JOHN ROBINSON PIM, Esq., *General Merchant in Dublin.*

"The very idea of curtailing the currency under £5 would have a tendency to discourage all adventure in Ireland at present. I should not, for one, be careful of placing money in any kind of machinery till the effect was tried. I fancy it would reduce property very much in that country,—and sometimes fancies are almost as bad as reality." [2]

Robert Murray, Esq., the chief officer of the Provincial

[1] Commons' Report, pp. 73, 74. [2] Lords' Report, p. 19.

Bank of Ireland, was examined as to the establishment of one Bank of Issue throughout Ireland. The following is his reply:

"It would produce an entire revolution in the monetary affairs of Ireland. The committee will already have gathered, from the questions I have previously answered, that the produce is brought to market in very small quantities, and by a very large number, I had almost said an innumerable class, of farmers; each man brings his sack of oats, and two or three pigs to market. It would be almost impossible, in such a state of things, to regulate by one bank of issue the monetary affairs of Ireland, or to adapt it to its purposes as it is now situated."

It may be useful to trace the effects of the Act of 1845 (8 & 9 Vict., c. 37) upon the state of banking in Ireland, as compared with the effects of similar enactments in Scotland and England.

1. The limitation of issue in Ireland, as in Scotland, is not absolute. The banks may issue beyond this limit, if they retain an amount of gold and silver equal to this excess. In England the prohibition is absolute. The probable effect will be that these enactments will not lead to any permanent decrease of the circulation in Ireland or Scotland. The banks will merely import more gold when the circulation increases. In England it seems probable that the circulation will permanently decrease. Means will be employed to conduct banking operations with fewer notes, and these means will operate at all times—when the circulation is low, as well as when it is high.

The provision of the Act of 1845, which requires the banks of Scotland and of Ireland to keep an amount of gold equal to the notes in circulation beyond the fixed limits, tends, as we have observed, to restrict the granting

of cash-credits in Scotland. We doubt if it will have an equal effect in Ireland, simply because the cash-credits exist to only a limited extent. The Provincial Bank introduced the system in 1825, and no system could be better adapted to the state of the country. It would doubtless have greatly improved the condition and the habits of the people; but the iniquitous runs for gold which, at the suggestion of reckless politicians, took place in 1828, 1830, 1831, and 1833, compelled the banks to restrict their operations. Had the banks remained without molestation, the whole of the agricultural districts of Ireland would probably by this time have had the benefits of this system, with the same beneficial results which have been realized in Scotland.

2. In Ireland these measures will not tend to produce so great an increase of gold as in Scotland. In Scotland the banks, previous to the passing of the Act, kept but a small amount of gold. But in Ireland the banks, from their liabilities to runs, have always kept large deposits of gold. The amounts required by the Act are not larger than those formerly kept in their vaults. It appears from the returns, that the Bank of Ireland has recently kept a smaller amount than before the passing of the Act. Hence their means of affording accommodation are not diminished; and as they sustain no loss, they have no reason for increasing their charges. The Bank of Ireland and joint-stock banks, as a rule, allow interest only on deposit receipts. The reason assigned by the Scotch banks for allowing interest on current accounts was, that the operations on these accounts maintained in circulation a large amount of their notes. This will be no advantage if the bank must retain an amount of gold equal to this increase of notes in circulation.

3. The prohibition of new banks of issue has operated

variously in the three countries. In Ireland it was beneficial; in Scotland it has been harmless; and in England it is injurious. The Agricultural Bank of Ireland caused considerable mischief. To prevent the recurrence of such evils, the most effectual way was to prohibit the formation of new banks of issue. Hereafter this restriction may become oppressive. Cork, and Limerick, and Waterford may become sufficiently wealthy to supply a banking capital, and may wish to form local banks. The local banks at Belfast have conferred great benefits on the north of Ireland. In Scotland the banks are sufficiently numerous, and, as they are allowed to unite, the authorized issue of notes is never likely to be less than it is. And although restrictions on banks are unsound in principle, they may not at present do any harm in Scotland. In England the restriction is injurious. Had we an unlimited power of forming new banks, many of those firms that now consist of not more than six partners would be merged in larger establishments. The number of banks would be less—the amount of their issues would probably be less—but they would attract a higher degree of public confidence, and their character and continuance would not be dependent upon the lives of individual partners.

4. Unions of banks in either Ireland or Scotland are not very likely, nor perhaps desirable. The banks are large, have a respectable capital, and enjoy the public confidence. In England, many banks are small, and have small capitals. Union among them would be highly beneficial. Yet such is the waywardness of legislation, that the Acts of 1844 and 1845 give facilities to unions in Ireland and Scotland, and restrict them in England. In Ireland and Scotland two banks of issue may unite, and the united bank have the united circulation. In England, if two banks of issue, either of which has more than six partners, should unite,

the circulation of one or both of these banks would be lost.

5. The Act passed in 1844, for the regulation of joint-stock banks in England,[1] was extended in 1846 to Scotland and Ireland, with the omission of the clause that rendered the banks subject to the laws of bankruptcy. By a clause in these Acts, any bank for the formation of which proceedings had been taken before the 6th May, and which was actually in business on the 4th of July, must at the end of a year after the passing of the Act either retire from business or take a charter. The Preston Banking Company was in this case, and accordingly became a chartered bank. Out of London this is the only bank that has a charter under the Act in England.[2]

It was a special provision of this Act (Joint-Stock Banks Regulation Act) that no new joint-stock bank can be formed of a less nominal capital than £100,000, and half the capital must be paid up before the commencement of business; that the assets and liabilities of the company must be published once at least in every month; and that at least one-fourth of the directors shall retire yearly, and shall not be eligible for re-election for at least twelve calendar months.

That provision of the Act which requires one-fourth of the directors to retire annually, and which declares them ineligible for election for one year, has been the subject of

[1] This Act, as regards the three kingdoms, was repealed by Act 25 & 26 Vict., c. 89, § 205. The Act alluded to in the text was 7 & 8 Vict., c. 113, while what is usually called "The Bank Act of 1844" (the object of which was simply to regulate the issues) was cap. 32.

[2] The Preston Banking Company was in 1895 amalgamated with the London and Midland Bank, Limited, now the London, City, and Midland Bank, Limited.

much discussion. The object of the Legislature appears to have been to prevent those evils which, in public companies of every kind, occasionally arise from the undue ascendency of individual directors. Practically, it may be injurious or advantageous to a bank, according to circumstances. On the one hand, it may deprive a bank of the services of its most useful directors for one year. And on their return, they may be less useful than heretofore, from being less acquainted with the transactions that have taken place during their absence. In small country banks it might not be easy to find other parties to take the places of the directors who had thus retired. On the other hand, it has been contended that the number of the directors, and consequently their influence, would thus be virtually increased —that, while on some occasions the most clever directors would be compelled to retire, at other times the least clever would retire, and their places might be better supplied—that the retirement of even the most clever might call forth the energies of the others, and thus the talents of the whole might be improved—that the plan tends to prevent the undue ascendency of any individual director, or of any knots or parties of directors, for any length of time—and that it is a convenient means of getting rid of an inefficient, injurious, or disagreeable director: for, when he is once out, it would be easy for the board, if so disposed, to prevent his re-election. By the charter of the Bank of Ireland, fifteen directors are chosen annually, and not above two-thirds of the directors of the preceding year can be re-elected.[1]

6. There is another difference between Scotland and Ireland with reference to banking operations, though it does not arise from the above-mentioned Act. At the time

[1] See note, p. 221.

of the union between England and Ireland, Ireland had her debts as well as England. And although England became liable for these debts, the dividends continued to be paid, and the transfers made in Dublin. Hence Government stock is bought and sold there in the same way as in London. Besides this, any party may purchase stock in Ireland, and have it transferred to England, or the reverse. The plan is this:—Any person holding stock may go to the Bank of England, either personally or by power of attorney, and get a ticket that will authorize him to have the same amount of stock put in to his name in Ireland. The stock in England is then transferred to the Commissioners for the reduction of the National Debt. He may go to the Bank of Ireland in Dublin and reverse the operation. Several Acts of Parliament have been passed with reference to this subject. The last is the 33-34 Vict., c. 71, ss. 43-50, passed in the year 1870.

We have noticed the different meanings given to the word "circulation" in England, since the passing of the Act of 1844. By the Act of 1845, it is enacted that this word shall have the following meaning in Scotland and Ireland:

"Section 17.—And be it enacted, That all bank notes shall be deemed to be in circulation from the time the same shall have been issued from any banker, or any servant or agent of such banker, until the same shall have been actually returned to such banker, or some servant or agent of such banker." [1]

[1] It may be stated here that the circulation of the Issue Department of the Bank of England is at present £18,450,000 more than the amounts of gold and silver held in that department. The amount of the circulation in the hands of the public is found by deducting the amount of bank notes in the Banking Department from the amount of circulation of the Issue Department.

The Exchanges between the Banks.

Since the Act of 1845—when other banks besides the Bank of Ireland acquired the power of issuing notes in Dublin—a system of clearing, or, as it is called, of exchanges, has been established.

The business of the Clearing is transacted at the Bank of Ireland, and until 1897 the differences were settled daily by means of exchequer bonds, of which each member of the Clearing was required to keep a specified quota, and which were to be received at par with any interest that might be due.

Since the year mentioned, however, the banks which are members of the Clearing, have kept accounts with the Bank of Ireland, and the daily differences are settled by transfers between these accounts. The Bank of Ireland allows or charges interest at the Bank of Ireland deposit rate on the balances of these accounts, according to whether they are credit or debit balances, and twice a week, on Tuesdays and Fridays, these balances are settled by drafts upon the London agents of the members of the Clearing. The latter consist of the six Irish banks of issue, as follows:

The Bank of Ireland.
The Provincial Bank of Ireland.
The National Bank.
The Ulster Bank.
The Belfast Bank.
The Northern Bank.

Rules

Governing the Exchanges in Dublin, established 8th December, 1845 (*amended and revised, March,* 1873; *and September,* 1897).

1. The ordinary business of the Exchange Room shall be conducted in the Bank of Ireland under the supervision of an officer appointed by the Bank of Ireland.

2. The hours for making the exchanges shall be as follows:

First Clearing, for notes and cheques	10 o'clock a.m.
Second Clearing, for cheques and cash orders	12.30 ,, p.m.
Final Clearing, for cheques only	2 ,, ,,

Except on Saturdays when the hours shall be:

First Clearing, for notes and cheques	9.45 o'clock a.m.
Second Clearing, for cheques and cash orders	11.30 ,, ,,
Final Clearing, for cheques only	12 ,, noon.

3. In order to ensure punctuality any bank not represented in the Clearing Room *fifteen minutes* after the hours specified will be excluded from that exchange.

4. The settlement of the exchanges shall be undertaken by the Bank of Ireland, but the Bank of Ireland shall not be held to incur any responsibility in respect thereof.

5. Each of the exchange banks shall keep an "exchange" account with the Bank of Ireland, and the *daily* exchanges will be settled by the Bank of Ireland debiting or crediting these accounts for the amounts of the daily balances,

the said balances, debtor or creditor, carrying interest at Bank of Ireland deposit rates. All interest accounts to be settled half-yearly.

6. When the daily settlement has been struck the officer supervising the exchanges shall hand to the representative of each settling bank a debit or credit note, as the case may be (duly signed) showing each bank how it was affected by the day's exchanges.

7. There shall be two *final* settlements in each week, on Tuesdays and Fridays, the balances of those days being included in the said settlements. These final settlements shall be effected by the Bank of Ireland, on the said Tuesday and Friday afternoons, receiving from those banks who are debtors drafts on their London agents for the amounts of their debtor balances; and giving to those banks who are creditors the Bank's drafts on its London agents for the amount of their balances; said drafts, in both cases, to carry interest at Bank of Ireland deposit rates until date of payment in course.

8. Any bank a party to this agreement to have the power of withdrawing from it, or demanding a reconsideration of the rules at any time.

9. No bank a party to this agreement shall directly or through any agent demand gold or pay gold to any other bank a party to this agreement, unless under special agreement between any two of them mutually agreeing to pay and receive a sum of gold.

10. All orders payable on demand, whether in Dublin or country towns, to be passed through the Clearing-Room, the orders on provincial towns at the morning clearing only, up to, but not later than 12.30 o'clock.

Deductions for commission to be distinctly specified in a note attached to the documents previous to their being brought to the Clearing-Room.

Documents returned dishonoured shall not pass through the Clearing-Room.

The violation of these regulations by any bank to be considered a virtual withdrawal of that bank from this agreement.

SECTION XXXII.

THE LONDON BANKERS' CLEARING-HOUSE.

THE exact date of the origin of the Clearing-House is uncertain. In the Bullion Report of 1810, it is stated in the evidence of William Thomas, the Inspector of the Clearing-House, Lombard Street, that the existing clearing system was then about thirty-five years old. This would give us about 1775 as the year of foundation. In Mr. John B. Martin's "Ye Grasshopper,"[1] the following entry is quoted from the books of Martin's Bank, under the date of 1773:

	s.	*d.*
To quarterly charge for use of Clearing-Room	19	6

A further confirmation of the fact that the Clearing-House was established about this date is afforded by the fact that Messrs. Smith, Payne, and Smiths (now the Union of London and Smiths Bank), have in their possession the bank's clearing-book of the 3rd March, 1777, this being the earliest trace discoverable in their records.[2]

It seems very probable that it was originally a voluntary and informal meeting of clerks. Whether there is any truth in this statement or no, its advantages gradually became recognized, and after the number of clearing bankers had increased, a committee was formed for its government. This committee was composed of a representative of each

[1] P. 168.

[2] H. T. Easton's "History of a Banking House," p. 109.

of the leading bankers, and any new bank that desired to have the privilege of clearing had to apply for permission to the committee.

The object the clearing bankers had in view was to exchange bills and cheques against bills and cheques, and thus be enabled to carry on their business with a less amount of capital. But while the bankers endeavoured to promote their own interest, they promoted at the same time the interest of the public. The sums liberated from employment in this way became available for employment in agriculture, manufactures, and commerce. Whenever any banker, therefore, is excluded from the Clearing-House, and is, consequently, obliged to keep a larger amount of cash in his coffers, his available capital is so far reduced, and thus the agriculture, manufactures, and commerce of the country receive less encouragement.

The establishment of the Clearing-House has led to new arrangements in several branches of business. The stock-brokers, for instance, now settle all their receipts and payments by cheques to be paid through the Clearing-House. The cheques a broker draws on his banker are paid at the Clearing-House by cheques of other brokers, which he lodges to his credit. The Colonial brokers also, and other classes of commercial men, have fixed days for settling their accounts, and on these days draw cheques on their bankers in the morning, and pay in cheques to meet them at a subsequent part of the day. Thus the institution of the Clearing-House has become entwined with the commerce of the country, and could not be discontinued without deranging every branch of business. It has also received the sanction of the law of the land, the courts of law having decided that the presentment of a bill of exchange at the Clearing-House is a legal presentment. In this case, as in many others, the custom of bankers and merchants

has become law. Many of our commercial laws have had the same origin. They have at first been mere regulations established by merchants for their own convenience; these regulations have been adopted by other classes of the community; they have been followed for a number of years, and then the law has recognized them as a portion of the commercial institutions of the country. Such was the origin of allowing three days' grace upon bills of exchange, and such has been the case with the Clearing-House.

Though in its early years the privilege of membership was esteemed but lightly, yet, as the value of a seat in the House became more fully realized, it grew increasingly difficult for a new bank to obtain admission. When the London and Joint Stock banks were established, in the years following the permissive Act of 1833, they were rigidly excluded from membership, and this exclusion was strongly resented, as the following extract from Mr. Gilbart's evidence before the committee on Banks of Issue will show:

"Another amendment which I would propose as connected with the currency of London, would be a regulation of the Clearing-House by the Legislature. Although the Clearing-House was a voluntary association of bankers at first, yet it has now existed for sixty years, and has become interwoven with several branches of London trade; it is therefore, for all practical purposes, a public institution, and like a market or any other public institution, might become the subject of legislative interference. The exclusion of banks in London from the Clearing-House, whose capital now amounts to about £2,000,000 sterling, and who have about 2,000 partners, is not only a great inconvenience and great loss to those banks, but is a great inconvenience also to the public in general, and such an

interference with the freedom of trade as carried on by individual companies in London, as alone would justify the interference of the Legislature; and besides, it is quite unreasonable that an association of omnibus proprietors should be indicted and tried for a conspiracy because they have tried to run a rival omnibus off the road, and yet that a body of bankers may conspire for a similar object without any interference of the Legislature at all."

In 1854, however, the leading London joint-stock banks were admitted, and ten years later the Bank of England also became a member, though it cleared on one side only; that is to say, it clears only its charges *against* the other banks through the Clearing; the other banks, as members of the Clearing-House, being obliged to keep an account with the Bank of England, and pay in their charges against the Bank direct to the credit of their accounts.

The same year, 1854, saw a very great improvement in the methods of settling the daily differences in the House. Previous to this year these differences were settled by payment in Bank of England notes and coin, but thenceforward this method was superseded by transfers to and from the account which each member of the House was obliged to keep with the Bank of England, and an account called the Clearing Bankers' Account, in the manner described in the following pages. By this means the use of notes and coin was entirely done away with, and all payments made by simple transfers in the books of the Bank of England.

Although the joint-stock banks were admitted as members of the Clearing-House in 1854, the House itself in Post Office Court, Lombard Street, remained the property of those private banks who were members, and if any of these banks ceased to be members or became merged in a joint-stock bank, their share was divided among the

remaining private banks. In 1895, however, when these banks were reduced to four, Messrs. Barclay and Co., Brown, Janson and Co., Robarts and Co., and Smith, Payne and Smiths, the House was acquired by a company, the shares of which were held amongst all the banks who were members.

The management and regulation of the House is in the hands of the Committee of London Clearing Banks, composed of one representative of each of the banks which is a member.

The following are the

Rules and Regulations to be observed at the Clearing-House.

Ordinary Days, excepting Saturdays.

Morning Clearing to open at 10.30 a.m. Drafts, etc., to be received not later than 11 a.m.

Afternoon Clearing to open at 2.30 p.m. Drafts, etc., to be received not later than 4.5 p.m. Returns to be received not later than 5 p.m., excepting on Settling Days and the first six working days in January and July, when the last delivery shall be 4.15 p.m. and Returns 5.30 p.m.

Saturdays.

Morning Clearing to open at 9 a.m. Drafts, etc., to be received not later than 10.15 a.m.

Afternoon Clearing to open at 12 noon. Drafts, etc., to be received not later than 1.30 p.m. Returns to be received not later than 2.30 p.m.

Exceptions.—With the exception of the first two Saturdays in January and July, and the first Saturday in April and October, when the time shall be 1.45 p.m. for the last delivery and 2.45 p.m. for Returns.

Further Exceptions for Returns.—Returns on the first Saturday in January and July to be not later than 3 p.m.

April 1st, June 30th, October 1st, December 31st, the day succeeding a Bank Holiday, and on such other days as the Honorary Secretary may determine.

On these days the time shall be 4.15 p.m. for the last delivery, and 5.15 p.m. for the last Returns, except when either of these days is a Saturday, when the time shall be 1.45 p.m. for last delivery and 2.45 p.m. for the last Returns.

General Rules.

The total amount of the Morning and Country Delivery shall be agreed by each Clearer before leaving the Clearing-House.

All clerks that are in the Clearing-House by the time appointed for final delivery, shall be entitled to deliver their articles, though they may not have been able to pass them to the different desks before the clock strikes.

All Returns in the Clearing-House upon the stroke of the clock, at the time appointed for final delivery, must be received by the Clearers and credited the same day. The Inspectors are instructed to close the doors and not re-open them until such Returns have been delivered.

Any Bank which has accepted and paid an article returned to it in error, may require repayment through the Clearing-House on the following day.

Notice shall be entered upon a Board at the Clearing-House, giving monthly statements of those settling days at the Stock Exchange, upon which the time for receiving Returns is to be 5.30 p.m.

With regard to all drafts not crossed, and all bills not receipted, sent to the Clearing-House as Returns, the

Clearer holding them must fully announce the particulars to the Clearing-House, and if not claimed, the case must be represented to the Inspectors; but on no account can the Clearer be allowed to debit the Clearing.House with the amount until an owner can be found.

No Return can be received without an answer in writing on the Return why payment is refused.

It shall be sufficient in order that a Return shall be received and credited, that it shall have on it an answer, why returned; and no Clearer shall refuse to pass to credit any Return that shall be so marked.

All the differences arising from Marked Articles of £1,000 and upwards must be finally ascertained and placed to account, before the Clearer makes up his balance sheet.

No Clearer shall be allowed to charge out drafts in the Clearing-out Book at the Clearing-House.

All differences of more than £1,000 that may have been accidentally passed over at night, shall be settled by a transfer at the Bank of England, the first thing the next morning.

The Inspectors are charged with the preservation of order and decorum in the Clearing-House, and are instructed to report to the Committee of Bankers disorderly conduct on the part of any persons, calculated, in their opinion, to obstruct the adjustment of the business of the House.

Rules for the Conduct of a Clearing of Country Cheques in London.

1. A Clearing to be held in the middle of each day for the interchange, among the London bankers, of cheques on their correspondents in the country, placed in their hands for collection.

2. Each London banker to remit for collection to his country correspondents the cheques drawn upon them, saying, "Please say if we may debit you £ for cheques enclosed."

3. Country bankers wishing to avail themselves of this Clearing to remit their country cheques to their own London agent, to stamp across them their *own name and address, and that of their London agent.*

4. Any country bank not intending to pay a cheque sent to it for collection, to return it direct to the country *or branch bank*, if any, whose name and address is across it.

5. Each country banker to write by return or post to its London agent in reply, "We credit you £ for cheques forwarded to us for collection in yours of ." Adding in case of non-payment of any such cheques, "having deducted £ for cheque returned to Messrs. at , and £ returned to Messrs. at ."

Country Cheque Clearing.

Additional Rules to be observed.

Country Clearing to open at 10.30. Drafts, including Returns, to be received not later than 12.30, except on Saturdays, when the time shall be 10 o'clock for the opening and 11.30 for the last delivery, including Returns. The door to be closed on the stroke of the clock, as in the Town Clearing.

(*It is required that all banks shall make a delivery as near to* 10.30 *as possible, on ordinary days, and* 10 *o'clock on Saturdays. In no case shall the first delivery be later than* 10.45 *on ordinary days, and* 10.30 *on Saturdays. The remaining deliveries at necessary intervals.*)

All the In-Clearing to be entered at the Clearing-House.

Castings of about fifty entries to be given with all the early deliveries of the Out-Clearing.

(*It is expected that the last castings will be given to the In-Clearers not later than five minutes after the last delivery of cheques.*)

All charges to be agreed at the Clearing-House on the day of the work, and the clerk responsible for the Out-side shall make it his business to go to the desk of the clerk entering his charge on the In-side for this purpose.

It shall be necessary for the In-Clearer to retain for the inspection of the Out-Clearer, the cheques of any casting, or any particular cheque in which a difference occurs.

All wrongly delivered cheques discovered before the Out and In-Clearers agreeing any charge have left the Clearing-House, shall be adjusted by the Clearers, but any discovered after either Clearer has left the House shall not be deducted from the already agreed amount, but shall be entered on the debit side of lists provided for the purpose, the cheque or cheques to be sent to the proper forwarding agent, who shall also enter them on the Credit side of the list provided; these lists to be handed to the Clearing-House Inspector on the morning following, and it shall be his duty to agree the same. The total of these lists to be brought on to the end of the balance sheet.

The balance sheet, together with the particulars of the Out and In-sides, shall be handed to the Inspector on the morning following the day of the work, and it shall be his duty to check the balances, and to call attention to any charge that may differ, as soon as possible.

It may be instructive, especially to our country readers, to have a detailed account of the operations of the Clearing-

House, and of all the work to be gone through in every clearing bank in connection therewith. We shall therefore proceed to give such a detailed account; and although there may be many technicalities in our description difficult to follow, particularly by the uninitiated, we shall aim at making it as clear as possible.

It will be convenient at the outset to explain the meaning of certain technical words used constantly in connection with the Clearing-House, which will render the description more easy of comprehension:

An "Article" is a bill, or cheque, or dividend warrant, or banker's payment slip, or memorandum for country notes, or indeed any article which is paid into the clearing for settlement there.

A "Charge" is a batch of *articles* (*i.e.*, bills, cheques, bankers' payments, etc.) sent into the Clearing-House by one banker to be *charged* by him against another.

"Deliver" and "Delivery" refer to charges *delivered* by the clerk of one banker upon the desk in the Clearing-House of the clerk representing another banker.

"Returns" are any *articles* which may be returned into the clearing unpaid, from want of funds, irregularity of endorsement, no advice, or from any other cause.

It will also be well to give a short account of the various books employed by every banker which bear in any way upon the work of the Clearing-House. But it will of course be understood that although every banker has books which serve the same purpose as those about to be enumerated, it does not follow that the following is an exact description either of the titles of the books or of the system of book-keeping adopted by every banker. Generally speaking, however, the following books, or others somewhat similar, are in common use.

First of all there is the Journal, which contains a list of

all the bills due on a particular day, whether domiciled at the home establishment, or at the other clearing bankers.

Secondly, there are the Lists, which, among other items, contain clearing cheques and other articles brought in by the walk-clerks from their various rounds.

Then there are the Received-Waste-Books in which are entered the particulars of the credits paid in by customers to the cashiers.

These three books bear indirectly upon the clearing. The bills specified in the first-mentioned book domiciled at clearing banker's are handed over by the bill department to the clearing clerks, and are entered by them in what is called the Morning Bill Book. The cheques, etc., mentioned in the Lists and Waste Books are gathered from the walk and cashiers' departments from time to time during the day by the clearing clerks, and are entered by them at once into their Out-Clearing Book.

The other books which bear upon the clearing in addition to the Morning Bill Book, and the Out-Clearing Book, already mentioned, are the—

In-Clearing Book,
The Out Returns,
The In Returns,
The Clearing Balance Book,
The Clearing Difference Book, etc.

As the uses of these books are obvious, we shall not stay to describe them, but shall proceed to give a description of the manner in which the clearing is conducted.

It will be seen from the foregoing Rules that there are three clearings during the day—

1st. The Morning Town Clearing,
2nd. The Country Clearing,
3rd. The Afternoon Town Clearing.

For the sake of clearness we shall deal with the town

clearings first, and afterwards with the country clearing. The morning town clearing opens on ordinary days at 10.30 a.m., when the respective banks deliver to each other charges made up of bills, marked cheques, and as many of the cheques remitted from other branches or country correspondence by the previous evening's post as can be sent round to the Clearing-House in time. The bills are bills which have been discounted by the bank, or held for collection on account of customers. During the afternoon of the day before they fall due, they are passed from the bill department into the clearing department, so as to let the clearing clerks get an early start next morning. On the morning of the day on which they mature, the clearing clerks sort them into various batches, according to where they are domiciled. They sort all those due at the London and Westminster Bank, the National Provincial Bank, Barclay's, etc., etc., together, and then proceed to enter the amounts only in the spaces left under the respective headings of the other clearing banks in the Morning Bill Book. This book they then sum up, and check the aggregate of the totals with the sum supplied to them on a memorandum by the bill department of the bank. If right, their clearing work is checked so far, and they then transfer the various totals into the Out-Clearing Book. Having done this, they then proceed to deal with the "marked cheques." These are cheques which have been paid in by customers on the afternoon of the day before, too late for that day's clearing. Each bank every afternoon sends some of these cheques out to the other banks upon which they are drawn to get marked for payment. This marking consists of the initials of one of the cashiers being put upon the cheques, which is tantamount to an acknowledgment that they are all right and that they will be duly paid in the clearing next morning. The banks send out these cheques to be marked

chiefly for the convenience of their customers, but partly for their own protection in case a cashier might pay against an uncleared cheque which might afterwards prove to be bad. If a banker chooses not to send out such cheques for marking, no question can be raised by his customer as to want of due presentation, because it is distinctly stated on the pay-in slips with which each customer is supplied,—or the customer is acquainted in some other form,—that cheques not paid in by half-past three may not be cleared the same day.

The afternoon town clearing begins at half-past two and closes at four. But the Clearing-House clock is always kept five minutes behind Greenwich time, so that the representatives of the various banks have always five minutes' grace allowed them.

To the afternoon clearing the banks, as a rule, send in some six or seven "charges." But, of course, in exceptional times, such as during the progress of the payment of railway dividends, or any other kind of dividends, or from any other circumstance which makes business particularly brisk, many more charges are sent in. But in ordinary times some half-dozen is the usual number. At the opening of the afternoon clearing, at half-past two, the first charge delivered is usually composed of the remittances received in the morning letters, which were not in time for the morning clearing. Then about three o'clock the second charge is sent in, and is composed of the cheques, etc., received over the counter during the morning by the cashiers, for the credit of customers, or remitted from West-end and suburban banks and branches for collection. Then about every twenty minutes or so, from three o'clock till four, charges of the same description are sent in. And two or three minutes past four (by the bank clock) a final charge, consisting of a few articles of large amount, or

articles which for some reason the banker may be particularly anxious to clear, may be sent in.

It will, of course, be understood that the operations above described of one clearing bank are illustrative of the operations of all the clearing banks, and that while there have been clerks running between each bank and the Clearing-House, from time to time, delivering the charges he has upon the other banks, there have also been clerks representing the same bank all the time in the Clearing-House, receiving and entering up all the charges which all the other banks had against him.

It will also be understood that the Out-Clearing Book (which is written up *inside* the bank and is carried to the Clearing-House at four o'clock for the purpose of checking) of the delivering banker, is a counterpart of the In-Clearing Book of the receiving banker. Thus the two books of the two banks check each other and render the discovery of errors very easy. Here again one case illustrates the whole. What is done between two banks is done with each other between the whole number.

The first charge sent into the Clearing-House during the day is marked on the back of the last cheque thereof, with the total amount, so that the receiving clerk when he has entered it in his In-Clearing Book may add it up and agree it with the amount marked, thereby keeping his work well checked up, and so rendering the final adjustment of the balances very simple.

Country notes are not paid at the Clearing-House, but are taken round to the bankers who are agents for the country bankers, and exchanged for tickets which are passed through the afternoon clearing.

The West-end bankers, the Scotch banks, and such others as have not yet been admitted to the Clearing-House, clear through one or other of the London bankers.

We have described the process by which cheques are paid into the clearing, and have already explained that the Out-Clearing Book of one banker is a counterpart of the In-Clearing Book of the other. And in a sentence we may say that as soon as the receiving banker's representative in the Clearing-House enters the cheques upon him in his In-Clearing Book, he sends them immediately away to his own bank, where they are critically examined, and, if correct, posted in the ledgers. Should there be anything wrong with any of them, should there be insufficient funds, or should the endorsement be irregular, or should they be irregular in any way, they are sent back to the clearing and returned to the delivering banker with a distinct answer marked upon each cheque of the cause of return. These returns must be sent back to the Clearing-House not later than five o'clock on an ordinary day, and are debited on the balance sheet in the final balancing for the day.

It will be understood that the clearing clerks do not wait for the returns before they begin the balancing for the day. The moment the Clearing-House clock strikes four (five minutes past by Greenwich time) they begin the process of balancing, leaving the returns, if any, to be debited afterwards.

Notwithstanding the immense amount of work which is put through the Clearing-House daily, the aptitude of the clerks for their particular work renders errors of infrequent occurrence. The system also of marking the amount of the first and largest charge on the back, facilitates the balancing, by the opportunity it gives to each clerk of checking the major part of his work early in the day.

A great deal of time has been saved of recent years by the use of adding machines, not only in the Clearing-House, but also in the Clearing Departments of the banks which are members of the House. Another saving of time

has been effected by the use of what is called the "parcel system" in remitting cheques from the branches and country banks to the head office or clearing agent. By this system, first introduced in the country clearing, and afterwards extended to the town clearing, the remitting bank lists separately the cheques drawn upon those banks which have the same clearing agent; a paper band, with the total of the list written upon it, is then fastened round each bundle, and the bundle is dealt with as if it were a single cheque, the total only being entered. By this means a mass of detailed work is avoided, both in the Out-Clearing Book and in the Clearing-House. The system is not in universal use, but it is hoped that it will soon become so.

The In-Clearing Book of each clerk ought to agree, of course, with the portions relating to him of the Out-Clearing Books of the other banks. If he is right with all, then he balances, and there is no further trouble, but if he is wrong with any, to any large amount, he is bound to discover his error before leaving the house. A difference of £1,500 over (the In-Clearing clerk being always supposed to be right), or of less than £1,000 short is allowed to stand over till the following day if it cannot readily be discovered.

The country clearing (which was introduced by Sir John Lubbock, now Lord Avebury, in 1858) opens on ordinary days at half-past ten and closes for delivery of cheques thereinto, and also for returns, at half-past twelve. The course of the manipulation of the country clearing is obvious. Every bank in London receives during the day a large number of cheques upon country bankers. Upon these cheques the name of the London agent is printed. So when the clearing clerks of each bank get such cheques from the cashiers, and from the correspondence

department, and from all the other sources whence they may come, they proceed to deal with them as they do with the town cheques. That is to say, they sort them out in batches according to the London agents' names, then enter the amounts in their books, and then deliver them in the clearing to the respective London bankers, agents for the country bankers. No credit is given in the clearing for these country cheques on the day on which they are delivered. The amounts are simply agreed by the delivering clerks and the receiving clerks, and then the articles are taken to the respective banks, whence they are sent by post the same evening to the country bankers upon whom they are drawn. If these cheques, on reaching their destination, are found to be in order, they are credited in account with the London agent and advised; but if any of them are not in order, either through insufficient funds, or irregular indorsement, or any other cause, such irregular cheques are returned direct to the banker whose crossing they bear. All country cheques not returned, or advised, by the morning of the third day, are assumed to be paid, and credit is accordingly given for them in the clearing of that day, and the amount is settled for, along with those advised paid, in the final balance. All country cheques held by London bankers returned unpaid, must be returned into the hands of the clerk representing the delivering bank by half-past twelve on the morning of the third day, and they are simply deducted from the total of the country cheques on the day of settlement, and the balance only is settled in the final amount.

The balance only of the country clearing is brought into the final settlement on the town clearing balance sheet, as will be seen on reference to the form given on page 298. The C. H. on the same form means "Clearing-House," and is meant for the adjustment of differences.

In addition to the two clearings we have just described, the Town Clearing and the Country Clearing, a third clearing, to be called the Metropolitan Clearing, has just been instituted, though at the time this is written (in November, 1906) it has not yet been put into practice. Although it is too early to say much about this new clearing, which does not come into operation until 19th February, 1907, yet the experiment, for it is frankly recognized as an experiment, is of so great interest that an account of the aims of its authors, and the means by which these aims are to be attained, will hardly be out of place.

Hitherto the cheques drawn upon the London suburban branches of clearing and other banks, and the West-end banks, have not been collected through the Clearing-House. The town clearing has been practically confined to banks in the City of London. Cheques on London banks or branch banks outside the town clearing have been collected either by walk-clerks from the City office or clearing agent of the presenting banker, or through the suburban branches of the presenting banks, or through the post. For instance, all such cheques which come into the hands of the various branches of—say the London and County Bank—would be sent up to its head office and there sorted. Walk-clerks would then be despatched, each with a number of the charges, to such districts as are easy of access, while the charges on banks in the suburbs would be sent to the local branch of the London and County Bank, where there was one conveniently situated; in each case a draft on a clearing bank would be received in exchange for the "charge." Should there be no branch of the London and County Bank within easy access of any suburb, the cheque would probably be presented through the "Country Clearing." There are several

weak points to be noticed with regard to this method of collecting cheques. First of all it is obvious that there are a number of walk-clerks all traversing the same districts, and leaving charges at the same banks, a task which might just as easily be performed by one or two at the most in each of such districts. Secondly, there is a want of definition about the system, if one can call it a system in which each bank's methods are determined by the circumstances of each individual case, without any attempt at uniformity. Several attempts have been made to introduce a more logical method of collection, hitherto without success. On 4th April, 1906, however, Mr. P. W. Matthews, the Chief Inspector of the Clearing House, read a paper on the subject before the Institute of Bankers, and a sub-committee of the clearing bankers was appointed to consider whether it was practicable. This sub-committee drew up a scheme, which, however, differed considerably from Mr. Matthews's, and this scheme received the approval of the Clearing-House Committee on 1st November, 1906. It is thus described by Mr. J. Spencer Phillips, the President of the Institute of Bankers, in his inaugural address, delivered on 7th November, 1906:

"Broadly speaking, the new departure is this: instead of each Head Office sending out and collecting 'walks' cheques on the branches of other banks, it will collect those on its own branches. Every morning each Head Office will present, through the Clearing-House, to every other Head Office, all the cheques it holds on their 'walks' branches. Consequently each Head Office will receive from the Clearing-House the accumulated cheques held by other banks on its own branches. These it will immediately proceed to sort and despatch to those branches for payment. The advantage gained by one walk-clerk or messenger having to go to each branch instead of nineteen or twenty,

is obvious, though the difficulties as to time, distance, etc., are not inconsiderable."

While the scheme remains in its experimental stage it will embrace only branches of the clearing banks, and of the London and Provincial Bank, which will clear through Messrs. Glyn, Mills and Co., its clearing agent. It is hoped that it will prove possible, at a later date, to include also the West-end and Smithfield bankers. A list of branches has been agreed upon which will be regarded as metropolitan, and all suburban branches not included in this list will henceforward be collected through the country clearing. There will thus be a definite division of areas into Town, Metropolitan, and Country, and to further help to distinguish these areas it has been agreed, that each bank shall have printed upon the bottom left-hand corner of each cheque, before it is issued to the customer, either a T, an M, or a C. This should greatly facilitate the work of sorting, and reduce errors in the process, and wrong deliveries, to a minimum. To the bank's customer it should prove of great assistance, as he will be readily able to calculate the time required for clearing each cheque. Moreover, the London banks usually collect country cheques before crediting them, and require them to be entered upon separate credit slips. As, however, the customer was often unable to know whether a cheque was "Town" or "Country," much time was wasted in transferring country cheques to "Town" slips, and *vice versâ*.

Owing to the wide area covered by the metropolitan clearing, and the desirability of avoiding any clashing with the other clearings, the hour at which it will open is an early one—9 o'clock on ordinary days, and 8.45 on Saturdays. The first delivery will be made when the clearing opens, and other deliveries at frequent intervals,

as in the afternoon town clearing. It will close at 10.30 on ordinary days, and 9.45 on Saturdays, and all returns must be delivered in the afternoon town clearing, by 4 o'clock on ordinary days, and 1.30 on Saturdays. The general rules already existing at the Clearing-House will be observed as far as they apply.

Having given a description of the operations of the clearing and the means by which these are carried out, it now remains for us to describe the process of the final balancing and the mode of settlement of the entire clearing.

We shall suppose that each clerk has balanced with his neighbours. He then proceeds to fill in the balances, in his favour or against him, as the case may be, on his Clearing Balance Sheet (see form). For the sake of example we shall take the National Provincial Bank's balance sheet, and shall suppose that three-fourths of the other clearing bankers owe that bank balances of various amounts aggregating the sum of £999,000 19*s.* 11*d.*, and that that bank owes the remaining fourth of the clearing bankers various balances amounting in the aggregate to the sum of £762,956 17*s.* 9*d.* There is thus a balance in favour of the National Provincial Bank of £236,044 2*s.* 2*d.* This balance is not brought into the till of the National Provincial Bank in cash and bank notes, as would have been the case prior to 1854. It is simply transferred to the credit of their account at the Bank of England, out of the account kept at the same institution called the "Clearing Bankers' Account."

The following are the forms, printed on green paper, used in making such a transfer.

(No. 1.)

SETTLEMENT AT THE CLEARING-HOUSE.

London, ——————, 1906.

To the Cashiers of the Bank of England.

Be pleased to credit our account the sum of Two hundred and thirty-six thousand and forty-four pounds 2*s.* 2*d.* out of the money at the credit of the account of the Clearing Bankers.

For the National Provincial
Bank of England, Ltd.,

£236,044 2*s.* 2*d.* A B

Seen by me .....
Inspector at the Clearing-House.

For which the Bank gives the following certificate:

(No. 2.)

SETTLEMENT AT THE CLEARING-HOUSE.

Bank of England.

——————, 1906.

The account of the National Provincial Bank of England has this evening been credited with the sum of Two hundred and thirty-six thousand and forty-four pounds 2*s.* 2*d.* out of the money at the credit of the account of the Clearing Bankers.

For the Bank of England,
C D

£236,044 2*s.* 2*d.*

On the other hand, let us suppose that the final balance of the clearing instead of being in *favour* of a banker is *against* him. For the sake of further example, we shall suppose that Barclay and Co. owe two-fifths of the other clearing bankers various balances amounting in all to £736,504 3*s.* 8*d.*, and that the remaining three-fifths owe various balances amounting in all to £685,302 19*s.* 6*d.* In this case it will be seen that instead of having to receive from, they have to pay to, the clearing the sum of £51,201 4*s.* 2*d.* And here again, instead of having to receive so many bank notes and gold, silver, and copper, from those bankers whose balances were in favour of Barclay and Co., and paying in a similar manner those bankers whose balances were against them, as they would have had to do prior to 1854, Barclay and Co. now would have to settle the final balance against them by simply giving the following order on the Bank of England, which is printed on white paper:

SETTLEMENT AT THE CLEARING-HOUSE.

London, ————————, 1906.

To the Cashiers of the Bank of England.

Be pleased to transfer from our account the sum of Fifty-one thousand two hundred and one pounds 4*s.* 2*d.*, and place it to the credit of the account of the Clearing Bankers, and allow it to be drawn for by any of them (with the knowledge of either of the Inspectors signified by his countersigning the Drafts).

For Barclay and Co., Ltd.,

X Y

£51,201 4*s.* 2*d.*

For which the Bank signs the following certificate:

SETTLEMENT AT THE CLEARING-HOUSE.

Bank of England.

———————, 1906.

A transfer for the sum of Fifty-one thousand two hundred and one pounds 4*s.* 2*d.* has this evening been made at the Bank from the account of Messrs. Barclay and Co. to the account of the Clearing Bankers.

For the Bank of England,

C D

£51,201 4*s.* 2*d.*

This certificate has been seen by me

..... Inspector.

It is plain that by the operation of the account of the clearing bankers kept at the Bank of England, into which those clearing bankers whose balances are against them, pay, and out of which those bankers whose balances are in their favour, draw, the gigantic transactions of the London Clearing-House are day by day settled without the aid of a single penny.

To show the enormous operations passed annually through the Clearing-House, and the economic effects involved therein, we append a table of statistics extracted from the annual report of the Committee of London Clearing Bankers:

Table showing the amounts presented through the London Bankers' Clearing-House in all years for which records have been preserved.

Years.	Total Clearings.	On Fourths of the Months.	On Consols Settling Days.	On Stock Exchange Account Days.
	£	£	£	£
1839	954,402,000	49,105,000	36,035,000	99,573,000
1868	3,425,185,000	155,068,000	134,552,000	523,349,000
1869	3,626,396,000	169,729,000	149,932,000	564,935,000
1870	3,914,220,000	176,137,000	163,230,000	634,914,000
1871	4,826,034,000	211,095,000	210,647,000	806,356,000
1872	5,916,452,000	256,899,000	246,922,000	1,015,959,000
1873	6,070,948,000	272,156,000	249,755,000	1,038,257,000
1874	5,936,772,000	265,427,000	260,244,000	1,010,456,000
1875	5,685,793,000	245,810,000	251,572,000	1,043,464,000
1876	4,963,480,000	225,936,000	225,948,000	761,091,000
1877	5,042,383,000	232,630,000	228,254,000	744,085,000
1878	4,992,398,000	217,753,000	227,241,000	795,443,000
1879	4,885,937,000	213,348,000	225,381,000	842,937,000
1880	5,794,238,000	236,809,000	255,224,000	1,151,867,000
1881	6,357,059,000	253,133,000	278,864,000	1,383,430,000
1882	6,221,206,000	238,150,000	278,387,000	1,228,916,000
1883	5,929,404,000	239,080,000	254,620,000	1,058,703,000
1884	5,798,555,000	242,659,000	268,352,000	960,623,000
1885	5,511,071,000	221,873,000	249,327,000	935,084,000
1886	5,901,925,000	215,519,000	263,497,000	1,198,557,000
1887	6,077,097,000	256,469,000	297,199,000	1,145,842,000
1888	6,942,172,000	272,091,000	332,470,000	1,252,466,000
1889	7,618,766,000	290,117,000	351,690,000	1,338,842,000
1890	7,801,048,000	289,107,000	358,598,000	1,416,543,000
1891	6,847,506,000	264,501,000	314,807,000	1,067,403,000
1892	6,481,562,000	260,422,000	299,405,000	1,022,764,000
1893	6,478,013,000	268,084,000	300,478,000	1,002,664,000
1894	6,337,222,000	261,547,000	301,448,000	964,455,000
1895	7,592,886,000	283,610,000	345,446,000	1,304,679,000
1896	7,574,853,000	290,681,000	380,354,000	1,162,866,000
1897	7,491,281,000	302,123,000	362,610,000	1,113,612,000
1898	8,097,291,000	331,267,000	402,861,000	1,231,847,000
1899	9,150,269,000	359,088,000	403,042,000	1,544,295,000
1900	8,960,170,000	372,463,000	438,125,000	1,339,571,000
1901	9,561,169,000	392,279,000	484,047,000	1,582,624,000
1902	10,028,742,000	385,160,000	570,337,000	1,566,755,000
1903	10,119,825,000	382,285,000	593,605,000	1,456,775,000
1904	10,564,197,000	445,281,000	597,160,000	1,536,586,000
1905	12,287,935,000	497,070,000	638,783,000	2,070,622,000

There are local Clearing-Houses in many of the larger provincial towns, as in Manchester, Liverpool, Birmingham, Newcastle-upon-Tyne, Leeds, and Bristol, at which cheques drawn upon banks in each town or within a specified radius are exchanged. The business of these clearing-houses is necessarily confined to local cheques or bills which are in the hands of local bankers, and other "articles" are cleared through the London Clearing-House by means of the London agent or head office. In some cases, however, notably that of the Manchester Clearing-House, the local area is a very wide one, embracing as it does the whole district in which are situated the branches of the banks whose head offices are in Manchester. The details of the work of these clearing-houses differ from those of London and from each other, but the principle involved is the same, and in most cases the differences are settled by means of transfers at the local branch of the Bank of England.

As we have seen in former chapters there are also clearing-houses in Scotland and Ireland; but so far it has not been found practicable to establish an international Clearing-House in which banks in all three kingdoms would be represented. Some of the Scotch banks have applied for admission to the London Clearing-House but without success. One reason for the refusal is that the Clearing-House Committee have always required that the members of the House shall have their head offices in London. Another reason is that all the Scotch banks are banks of issue, and the possession of this privilege has given them a monopoly of banking in Scotland, practically preventing the establishment of a branch of an English bank in Edinburgh or Glasgow. The opening of branches of the Scotch banks in London was therefore in some quarters considered an encroachment, and the clearing

bankers were on this account unwilling to admit them on an equality by granting them the privileges attendant on membership of the Clearing-House.

Specimen Form of the London Bankers' Clearing Balance Sheet.

THE NATIONAL PROVINCIAL BANK OF ENGLAND.

Debtors.					Creditors.			
			Barclay					
			Bank					
			Capt[l]. & Counties					
			County					
			Glyn					
			Joint					
			Lloyds					
			Lon[d], City, & Midland					
			Lon[d] & South West[n]					
			London & West[r].					
			Martin					
			Metropolitan					
			National					
			Parr's					
			Robarts					
			Southwark [1]					
			Union					
			Williams					
			Country Clearing					
			C. H.					

[1] This is the Southwark branch of the London and Westminster Bank, which clears separately.

SECTION XXXIII.

THE PANICS OF 1857 AND OF 1866.

MR. GILBART'S estimate, in a former section, of the effects of the Bank Charter Act of 1844, in producing that singularly similar sequence of variations in the rate of interest "to which we must always be liable as long as our currency is regulated by the Act," has been amply verified by subsequent experience. Nor are these fluctuations of rise and fall in the bank rate more marked in the regularity of their fitfulness, than is the recurrence of those far more momentous periodic changes in the money market which entail misery upon thousands of happy households, and even bring nations themselves to the verge of bankruptcy.

It has been remarked that panics recur at regular intervals of about ten years each; nor can this be wondered at, seeing that the years 1825, 1837, 1847, 1857, and 1866 have, from various causes, been marked by the catastrophes so named. Judging by this recurrence of disasters at an apparently fixed period, it is not surprising that in the popular mind there seems to be a belief that a cycle exists, fated to bring in its train ruin to the monetary world and to millions outside of it. The dominant causes of the panics of the years specified, and their distinguishing characters, differ in some essential particulars. In one feature, indeed, they are all alike—the unreasoning fear which heralds, accompanies, accelerates, and sometimes produces them.

Like the awful panic of 1825, that of 1857 came suddenly upon the public. A general delusion had prevailed in the former year, countenanced by the speeches from the throne on the opening and on the prorogation of Parliament, as well as by the complacent remarks of members of both Houses, that the country was about to enjoy an era of unexampled prosperity. Peru and Mexico were to pour into her lap the fabled wealth of El Dorado, and the golden sands of Pactolus to be eclipsed by the treasures which every tide would bring up the Thames. By the end of the year those fairy visions had disappeared before stern realities. It was the same in 1857. Families that had been living in opulence, were in a few brief agonizing hours reduced to beggary and plunged in despair—their fortunes gone, their hopes dreams. Labour was driven from its accustomed fields; commerce laid prostrate; credit all but extinct; energy paralyzed; fear and distrust in the ascendant; and enterprise a departed spirit. The gloom was universal, for thousands in every rank of life were ruined.

In sober truth, the crisis of 1857 fell upon the commercial world like a thunderbolt. Notwithstanding the extra expenditure entailed by the Crimean war, peace was concluded before the national resources had been strained beyond the limit their strength could bear.

"A period of nearly ten years," says an able writer, "uneventful as far as commercial disaster is concerned, may be passed over in silence, except to remark that in 1852 consols attained their maximum price since 1737, namely $101\frac{3}{8}$. The beginning of the memorable year, 1857, seemed to promise a long period of commercial ease, but the outbreak of the mutiny in India, the consequent suspension of remittances from that quarter, and the inverse demand for specie, the demand for capital to supply mate-

rials of war to the Government and the East India Company—all those causes tended to depress the funds. In January they reached 94⅜; in November, they fell to 87⅛—lower than at any time since January, 1856, during the pressure of the Russian war." [1]

Even so late in the year as the month of August, the public were unapprehensive of the storm soon to ensue, and few or none foresaw the severity with which it would rage. During the inquiry which followed, the Governor of the Bank stated:

"Things were at this time pretty stationary; the prospects of harvest were very good; there was no apprehension that commerce was otherwise than sound. There were certain more far-seeing persons who considered that the great stimulus given by the war expenditure, which had created a very large consumption of goods imported from the East and other places, must now occasion some collapse; and still more those who observed that the merchants, notwithstanding the enhanced prices of produce, were nevertheless importing as they had done successfully in the previous years. But the public generally viewed trade as sound, and were little aware that a crisis of any sort was impending, far less that it was so near at hand."

The crisis of 1847 had been owing chiefly to excessive railway speculations at home; this of 1857 was mainly due to over-trading abroad.

About the middle of September the mails brought disastrous news from the United States. American railway securities had fallen nearly 20 per cent. The railway accounts had long been "cooked," and the too well-known results of the process followed—sudden and enormous

[1] "Commercial Panics," by Arthur Locker: *Companion to the British Almanac*, 1867.

depreciations of railway stock, widely-spread distrust, a drain upon the American banks, and failures shaking commercial credit to its centre. The proximate cause of this terrible crisis in America was the stoppage of the Ohio Land and Trust Company; an establishment which made advances on financial securities, and which, at the time it stopped payment, held deposits to the amount of £1,200,000. Hereupon, a deliberately planned system of "bearing" operations was put in movement, which was described in the "Times" City article of September 10, 1857, as follows:

"There is actually a powerful combination for the avowed purpose of bringing all the principal undertakings to ruin. A large body of active persons are known to be associated for the purpose: they influence the press to work out their views, and are alleged not merely to operate with a joint capital, but to hold regular meetings, and permanently retain legal advisers, whose chief vocation, it may be assumed, is to discover points that may enable the validity of each kind of security to be called in question, and thus to create universal distrust."

The downfall of the Ohio Land and Trust Company had been quickly followed by the failure of 150 banks in Pennsylvania, Maryland, Virginia, and Rhode Island; and since no less than eighty millions of American railway stock were computed to be held in England, a large demand for bullion on American account set in here. The run for deposits in specie on the New York banks brought about by the villainous "bearing" organization noticed above, swelled distrust in America into a panic, which soon reacted on England. By the middle of October failures began to be numerous here. Liverpool and Glasgow, ever necessarily the most sensitive to fluctuations in the American markets, exhibited unmistakable indications of the

probable severity of the coming storm. Rumours spread affecting the Borough Bank of Liverpool[1] and the Western Bank of Scotland; and the alarm in London, where failures were following in quick succession, rose to its height when, on November 7th, the great firm of Dennistoun and Co., which had numerous agencies in America and Australia, stopped payment, with liabilities of about two millions; and when, on the morning of the 9th, news arrived of the failure of the Western Bank of Scotland for between six and seven millions. Together with this intelligence came a call for gold from Scotland, a most unexpected, because unusual and exceptional circumstance at that time of the year. Three hundred thousand sovereigns were despatched to meet this demand; and when, on the 11th of November, the city was excited by the suspension of Sanderson and Co., a great discount house, with liabilities to the amount of upwards of five millions, when further demands for gold came from Scotland, when large calls followed from Ireland as well, when failure succeeded failure, and the utter rottenness which had pervaded the commercial world became apparent, and general bankruptcy seemed imminent—recourse was had, for the second time, to the panacea—suspension of the Bank Act of 1844. Government authorized the Bank of England to exceed the prescribed limit of its issues by discounts and advances upon approved securities.

This authorization, which was given on the 12th, at once quieted the public mind; but there was this notable difference between the effects of the first suspension of the Act in 1847 and of the present, that whereas in that year the mere notice of suspension had operated as a charm, and no notes were actually issued in excess of the statutory

[1] Not long afterwards it stopped payment.

limit,—in 1857, from November 13th to December 23rd securities of the value of £2,000,000 in excess of the amount authorized by the Act of 1844 were added to those in the Issue Department, and notes to that amount transferred to the Banking Department. Nor did the reverses consequent upon fraudulent financial management and reckless overtrading end with the allaying of the general panic. Trade with America had acquired such development here and on the continent, in Germany, especially, that failures in the Hanse Towns and other centres of commerce brought about the downfall of many English houses in this connection, and, superadded, were stoppages of large firms connected with the Baltic trade; among them the Northumberland and Durham Bank for three millions—so that it was hardly before the close of 1858 that the collapse of dishonest trading and fictitious credit was complete, and commercial affairs resumed their legitimate course.

We have said that the crisis came upon the world without a note of warning, and remarked that the consequences of the financial earthquake which shook the moneyed institutions of America to their base, were severely felt on the continent, as well as in the United Kingdom. In the autumn of 1857 (August 17) the Bank of England entered into a negotiation with the East India Company to supply a million in specie for transmission to the East. At this date the bullion was £10,606,000, the reserve £6,296,000, and the rate of discount $5\frac{1}{2}$. By the 8th of October, the bullion had fallen to £9,751,000, the reserve to £4,931,000, and discount was raised to 6 per cent. On the 12th, the rate was raised to 7 per cent., and on the 19th to 8 per cent. By this time the bullion had sunk to £8,991,000, and the reserve to £4,115,000. At Paris, discount had risen to $7\frac{1}{2}$, and at Hamburgh to 9 per cent. On the 5th

of November the Bank of England raised its rate to the latter figure, and on the 9th, to 10 per cent.; whilst the Bank of France raised its rates to 8, 9, and 10 per cent. for one, two, and three months. By the 11th, the bullion in the bank was reduced to £6,666,000, and the reserve to £1,462,000. So that at this date there was a decrease, since the middle of August, of about four millions in the bullion, and of close upon five millions in the reserve. As soon as the pressure had begun to be felt, a great demand for gold on American account had set in; and in the interval between this period and the rise of the crisis to panic height, large amounts of specie had to be sent to Scotland and Ireland, whilst the discounts meantime were in proportion to the magnitude of the calls for assistance; on the 12th, they amounted to £2,373,000. The state to which the bank was reduced on the evening of this eventful Thursday, when the Act was suspended, is shown by the startling fact that its total reserve in London was but £384,144, and at its branches, only £196,607 more. The bankers' balances alone against it on this very evening were £5,458,000. It is clear, therefore, that but for the suspension of the Act the bank must have stopped. The "Times" observed:

"On the merits of this step" (the suspension) "we will say but little. It may be consistent with the maxims of political economy to regulate the issue of notes in ordinary times, and thus to check rash speculation and the embarkation in business of men destitute of capital, while when an actual dearth of money prevails, the chief banking institution of the country may be allowed to extend its issue of notes under a public guarantee. But if such is to be the principle of our monetary system, the sooner it is embodied into a law the better. If the bank is to extend its legal issue of notes as often as its rate of discount is neces-

sarily raised above a certain point, then an Act of Parliament should establish the practice on sound and intelligible principles. The commercial interests of the country should not be subjected to a system by which a law is obeyed as long as obedience is easy, and temporarily swept away as often as pressure or panic supervenes. The houses which, in 1847 and 1857 have stopped payment before the relaxation of the law, may well complain that, while they have been crushed by the operation of the Bank Charter Act, others not more solvent or of higher standing than themselves have been saved by the suspension of it.

The commercial atmosphere having been cleared by the monetary hurricane of 1857, a period of comparative tranquillity ensued. The bank rate of discount was not reduced below 5 per cent. until the bullion in its vaults exceeded £15,000,000; but, generally speaking, its rate was moderate throughout 1859 and 1860, and, with the exception of a rise to 8 per cent. in 1861, which was but of brief duration, the same may be observed of that year and of 1862. Owing to the large issues of paper money in America by the belligerent governments of the North and South, bullion soon disappeared from circulation in the warring States, and floated hither. Hence money was plentiful and its price easy. But the advantage was soon more than counterbalanced by the monetary derangement ensuing from the absence of the supply of cotton from the Southern States—itself a consequence of the civil war then and there raging. The price of this great staple of British manufacture rapidly rose. Supplies had to be sought from new sources, and had to be paid for in cash. The drain which then set in, and the apprehension of over-speculation excited by the number of new companies forming under the Limited Liability Act, which came into operation at this conjuncture, caused a general uneasiness. This state

of feeling commenced in the fall of 1863. Between this date and the summer of 1864 the fluctuations in the bank rate of discount evidenced the feverish condition of the country. On one occasion the Bank of England raised its rate twice in one week, from 5 to 6, and then to 7 per cent. This was in the winter of 1863; and again in May, 1864, it raised its rate, twice in one week, to 9. In fact, the rate of discount during this period was continually oscillating. Similar disturbance of the money market was manifested in France; occasioned, primarily, by the American civil war, and the failure in the supply of cotton. Large amounts of specie were drawn from the Bank of France, which raised its rate of discount several times, concurrently with the Bank of England, and to the same figure.

"Already in March, 1864," writes Mr. Macleod, "the number of new companies formed under the Limited Liability principle gave great uneasiness. Up to that time it appeared there were 263 companies formed, with a nominal capital of £78,135,000, out of which 27 were banks, and 15 discount companies. In August, 1864, the long-dated acceptances of the new financial companies began to press on the market, and lay the foundation of the crisis of 1866."

On the 20th of June, 1865, the rate of discount reached its minimum, 3 per cent. From the 3rd of August to the 28th of September, the minimum rate of discount was 4 per cent.; on the 28th of the same month it was raised to $4\frac{1}{2}$, on the 2nd of October to 5, on the 5th to 6, and on the 7th to 7 per cent.—a rise of 3 per cent. in nine days. In November a drain set in of gold to Paris, and of silver to the East. The bank raised its rate in January, 1866, from 7 to 8. At the same time, the Bank of France raised its rate from 4 to 5 per cent.; and this simultaneous rise seems to have exercised a healthy influence upon jobbers

and speculators. February, 1866, was a period of intense perturbation among the holders of miscellaneous securities. Some large firms engaged in railway contracts suspended payment. Investments became unmarketable which a few months before had been eagerly sought after, and the public scouted concerns which had "floated" readily during the Limited Liability mania. Suspicion everywhere prevailed, and all kinds of securities were thrown upon the market at once. And, finally, a large percentage of the companies formed under the Limited Liability Act of 1862 were daily wound up, to the serious hindrance of the ordinary business of the courts.

But it was the break-up of the Joint-Stock Discount Company, which first raised any acute alarm; then followed the stoppage in April of Barned's Bank, at Liverpool, with liabilities of three and a half millions. The fright culminated into universal panic. On the 3rd of May, the bank raised its discount from 6 per cent., the quotation for the previous month, to 7; on the 8th, to 8; on the 9th, to 9. And on the 10th the most disastrous failure that ever filled the City with panic and dread, the stoppage of the great house of Overend, Gurney, and Co., for upwards of ten millions sterling, took place, and the bank raised its rate to 10 per cent. This momentous news was only known after banking hours; but when made public by the papers the next morning, that of Friday, the 11th, the scene of excitement which then took place is said to have thrown all previous wild terrors of the kind into the background; it was, said the Chancellor of the Exchequer next evening in the House of Commons, declared by the oldest inhabitants of the City to have been without a parallel.

The following was the account given by the "Times," in its impression of May 12th, 1866, of this bewildering scene:

"The doors of the most respectable banking houses were besieged, more, perhaps, by a mob actuated by the strange sympathy which makes and keeps a mob together, than by creditors of the banks; and throngs, heaving and tumbling about Lombard Street, made that narrow thoroughfare impassable. The excitement on all sides was such as has not been witnessed since the great crisis of 1825, if indeed the memory of the few survivors who shared that panic can be trusted when they compare it with the madness of yesterday. Nothing had happened since the day before to justify such a fear as was everywhere shown. Rumour, however, like the false woman in the Laureate's legend, 'ran riot amongst the noblest names,' and left no reputation unassailed. Each man exaggerated the suspicions of his neighbour; and until a report, at that time unfounded, was circulated in the afternoon, that the Government had authorized the bank directors to issue notes to the extent of five millions beyond the limit imposed by the Bank Charter Act, it seemed as if the fears and distrust of the commercial world had become boundless."

A writer in the "Bankers' Magazine" says:

"A greater crash has never taken place in any one week in any country in the world. Looking at the list of suspensions, it will be seen that their business ramifications are more than European. More or less they embrace all the four quarters of the world, and we have yet to feel the reaction from the effect which the news will produce as it extends from point to point."

The fever was at its height, the crisis had set in, and, for the third time, suspension of the Bank Charter Act wrought the cure. In reply to the questions certain to be asked in the House of Commons on emergencies of the kind, the Chancellor of the Exchequer said:

"I stated in the commencement of the evening that representations had been made to me from quarters of the greatest influence and credit with respect to the extraordinary state of the market, and the distress prevailing in the city to-day. I stated that those representations had come to me from gentlemen representing in particular the private banks of London, and I expected that I should shortly have received similar representations from those connected with the joint-stock banks. Those representations I have received accordingly, and they were pressed even more earnestly and urgently than I anticipated. I stated also, at the time when I had the honour of addressing the House, that the effects of the day's proceedings through the Bank of England had not been fully given to us. Since then we have become acquainted with them, and we find that the bank, through a desire to extend relief, has raised its loans and discounts to-day to a sum of something more than £4,000,000. The effect of that large accommodation was to reduce the reserves of the bank to a sum not very far short of £3,000,000 of money. Under these circumstances, as far as the facts are known, and there being no reason to believe that any great change has occurred in the state of things, the estimate is sufficiently accurate for all practical purposes, we find the bank reserves reduced in a single day from a sum approaching £6,000,000 to a little exceeding £3,000,000. The Government have felt that this is a state of things which, combined with the public feeling, calls for intervention on their part. We have taken the opportunity during the evening of considering the state of the facts, and the result has been that we have addressed a letter to the governor and deputy-governor of the bank, substantially the same as was addressed to those high officers in 1847 and 1857. That is to say, if the bank, proceeding upon its usual

prudent rules of administration, shall find occasion to make such advances from the issue department as shall exceed the limits allowed by law, we recommend that they should not hesitate to make that issue, and we undertake to make immediate application to Parliament for its sanction. (Cheers.) There are other points of detail, but that is the substance of the letter which shall be in the hands of the governor and deputy-governor of the bank to-morrow, and which I earnestly hope may have the effect of allaying the feeling of uneasiness which prevails in the country, especially as it does not arise from any general unsoundness in the condition of our commercial relations, but only from causes of a peculiar and specific character. In that respect we are able to draw a favourable distinction between the present crisis and others in former times; but there is also another distinction, and that is the extraordinary rapidity with which the crisis has come upon us, and which has prevented the adoption of measures which otherwise would have been taken for its relief. We have not, however, hesitated to act, to address ourselves to the subject with all the means in our power, and we trust that our proceedings will meet with the approbation of Parliament." (Cheers.)

The foregoing took place on the evening of the 11th; and on the 17th the Chancellor was again interrogated as follows:

Captain Gridley asked the Chancellor of the Exchequer:

"Whether he was aware that the directors of the Bank of England had declined to make advances upon the lodgment of Government securities, on the ground that they ought to be realized; and whether he considered the directors had complied with the expressed understanding that they, on getting permission to increase the issue of bank notes, were to afford accommodation to bankers and merchants."

Mr. Wyld asked the Chancellor of the Exchequer:

"If it were true that the Bank of England had refused to make advances on consols, and had otherwise neglected to give to merchants, bankers, and others, the accommodation not only implied, but expressed, when they obtained power to increase their issue of notes."

The Chancellor of the Exchequer:

"It may be convenient that, in answering the questions of the hon. members, I should combine them together, as they are so nearly akin. In the first place, I may say that I have not received complaints from any persons who consider themselves aggrieved by the conduct of the Bank of England. At the same time, certain rumours have gone abroad, and it is in respect of those rumours, as embodied in the questions of the hon. members, that I give my reply. The two points principally raised are these. First, whether I am aware that the directors of the Bank of England have declined to make advances upon the lodgment of Government securities, on the ground that they ought to be realized; and, secondly, whether I am of opinion that the directors have complied with the express understanding that they, on getting permission to increase the issue of bank notes, were to afford accommodation to bankers and merchants. I think these questions have been very opportunely put, because they enable me to remove a misapprehension that has got abroad, and which appears, from all that I can see, to have taken possession to a certain extent of the public mind. The misapprehension refers equally to the subject of advances upon bills and discounting of bills, and to advances upon Government securities. The best account that can be given of the operations of the Bank of England with regard to these two great branches of banking, is to state the figures relating to them, and I think it will be found on referring to them that the Bank

of England has not refused to make advances on Government securities. These figures are as follows: The advances made by the Bank of England on Government securities on Friday, the day of the panic, amounted to £919,000, on Saturday to £747,000, and on three subsequent days various amounts, making up the total amount advanced on these securities, in five days, to £2,874,000. (Hear, hear.) Then with regard to the accommodation of commerce in general, the best measure that can be given of the manner in which the bank has exercised its functions is shown in this—that it has made advances upon bills and has discounted bills to the extent of £9,350,000, making a total of advances and discounts in five days of £12,225,000. (Hear, hear.) Looking at these figures, I do not think that a very strong *prima facie* case has been made out of the bank having declined to afford to commerce the accommodation it should have given, but it is only due to the bank that I should point out certain words in the letter of Government which were expressly intended to serve as a notice to the world that the Bank of England was not to be expected, in the then circumstances of difficulty, to depart from all rules of caution. The conditional promise made in the letter, signed by the First Minister and myself, was a promise to apply to Parliament for its sanction, in case it should happen that necessity should require the bank, for the purpose of making advances and discounting bills, to issue notes beyond the limit fixed by law, subject to the restriction that the bank was not to give to everybody everything that was asked, but that it should be governed by those prudent rules of caution by which it was generally guided. That was a very important limitation, and it reserved, I think, entirely, as it was meant to do, the discretion of the gentlemen of the Bank of England, in whom we have every reason to place confidence. With

regard to the Government securities and other points, the foundation upon which the rumours rest is of the slightest possible nature. I cannot find that there is any possible ground for supposing that any limit was placed by the bank on its advances on securities, either upon Friday, the day of the severest pressure, or upon Saturday, which was also a critical day; but on Monday, when the panic began to subside, and when Government securities were brought to the bank for advances, the bank directors suggested, in various instances, to the holders of those securities, that it would be better for them to try the open market and to realize for themselves. (Hear, hear.) In consequence of that view—in my opinion, not an unreasonable one on the part of the directors of the bank—certain sales of securities were effected. These sales, I believe, were effected by one, two, or three persons only; and whenever representations were made to the bank that sales could not be made—meaning, I presume thereby, without serious loss—the bank met all the reasonable demands of the parties. With respect to other kinds of accommodation, commercial accommodation strictly so called, I have not been able to discover, nor are the authorities at the bank aware of any other ground for the rumours existing than the circumstance that applications did arise from one or two quarters, not for an amount of discount to a given limit, but for an unlimited amount of discount to be made use of in case necessity should arise. The directors of the Bank of England did not consider that their duty compelled them to accede to such demands, and, as far as I am able to judge, I think that, under the circumstances of the times, they acted wisely in giving no engagement to meet an unlimited amount of discount. That, I believe, to be the sole foundation for the rumours which are abroad. I think the explanation I have given is one which the House will be glad

to receive, and I believe that the authentic figures which I have stated to the House will do more than any mere verbal statement to explain the liberal, yet judicious manner in which the operations of the Bank of England are conducted at critical periods. I hope the effect of such communications will be that all that hereafter transpires with respect to the state of the bank will tend not to disturb, but further to compose the public mind." (Cheers.)

Annexed is the correspondence which passed between the Government and the bank on this momentous occasion:

"Bank of England, May 11, 1866.

"SIR,

"We consider it to be our duty to lay before the Government the facts relating to the extraordinary demands for assistance which have been made upon the Bank of England to-day, in consequence of the failure of Messrs. Overend, Gurney, & Co.

"We have advanced to the bankers, bill brokers, and merchants, in London, during the day, upwards of four millions sterling, upon the security of Government stock and bills of exchange—an unprecedented sum to lend in one day, and which, therefore, we supposed would be sufficient to meet all their requirements, although the proportion of this sum which may have been sent to the country must materially affect the question.

"We commenced this morning with a reserve of £5,727,000, which has been drawn upon so largely that we cannot calculate upon having so much as £3,000,000 this evening, making a fair allowance for what may be remaining at the branches.

"We have not refused any legitimate application for assistance, and unless the money taken from the bank is

entirely withdrawn from circulation, there is no reason to suppose that this reserve is insufficient.

"We have the honour to be, Sir,

"Your obedient Servants,

(Signed) "H. L. HOLLAND, *Governor.*

(Signed) "THOS. NEWMAN HUNT, *Deputy-Governor.*

"The Right Hon. the Chancellor of the Exchequer, M.P.
&c. &c. &c."

"*To the Governor and Deputy-Governor of the Bank of England.*

"Downing Street, 11th May, 1866.

"GENTLEMEN,

"We have the honour to acknowledge the receipt of your letter of this day to the Chancellor of the Exchequer, in which you state the course of action at the Bank of England, under the circumstances of sudden anxiety which have arisen since the stoppage of Messrs. Overend, Gurney, & Co., Limited, yesterday.

"We learn with regret that the bank reserve, which stood so recently as last night at a sum of about five millions and three-quarters, has been reduced in a single day by the liberal answer of the bank to the demands of commerce during the hours of business, and by its great anxiety to avert disaster, to little more than half that amount, or a sum (actual for London and estimated for the branches) not greatly exceeding three millions.

"The accounts and representations which have reached her Majesty's Government during the day exhibit the state of things in the city as one of extraordinary distress and apprehension. Indeed, deputations composed of persons of the greatest weight and influence, and representing alike the private and joint-stock banks of London, have pre-

sented themselves in Downing Street, and have urged, with unanimity, and with earnestness, the necessity of some intervention on the part of the State, to allay the anxiety which prevails, and which appears to have amounted, through great part of the day, to absolute panic.

"There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress, but the vital consideration of banking credit does not appear to have been involved in them, as it is in the present crisis.

"Again, the course of affairs was comparatively slow and measured, whereas the shock has in this instance arrived with an intense rapidity, and the opportunity for deliberation is narrowed in proportion. Lastly, the reserve of the Bank of England has suffered a diminution without precedent relatively to the time in which it has been brought about, and in view especially of this circumstance her Majesty's Government cannot doubt that it is their duty to adopt, without delay, the measures which seem to them best calculated to compose the public mind, and to arrest the calamities which may threaten trade and industry. If, then, the directors of the Bank of England, proceeding upon the prudent rules of action by which their administration is usually governed, shall find that, in order to meet the wants of legitimate commerce, it be requisite to extend their discounts and advances upon approved securities, so as to require issues of notes beyond the limits fixed by law, her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and in that event they will not fail to make application to Parliament for its sanction.

"No such discount or advance, however, should be granted at a rate of interest less than 10 per cent., and her Majesty's Government reserve it to themselves to

recommend, if they should see fit, the imposition of a higher rate. After deduction by the bank of whatever it may consider to be a fair charge for its risk, expense, and trouble, the profits of these advances will accrue to the public.

"We have the honour to be, gentlemen,
"Your obedient Servants,
(Signed) "Russell.
(Signed) "W. E. Gladstone."

The official correspondence is completed by the following letter and accompanying resolutions:

To the Right Hon. Earl Russell and the Right Hon. W. E. Gladstone, M.P.

Bank of England, May 12.

"My Lord and Sir,

"Having laid before the court of directors the letter received from you yesterday with respect to a further issue of notes, if necessary, beyond the limit affixed by the Act of 1844, we have now the honour to enclose a copy of the resolutions of the court thereupon.

"We have the honour to be, my Lord and Sir,
"Your most obedient servants,
"H. L. Holland, *Governor.*
"Thos. N. Hunt, *Deputy-Governor.*"

"(*Copy of Resolutions Enclosed.*)

"At a court of directors of the bank, on Saturday, the 12th of May, 1866.

"*Resolved*,—That the governors be requested to inform the First Lord of the Treasury and the Chancellor of the Exchequer that the court is prepared to act in conformity with the letter addressed to them yesterday.

"*Resolved*,—That the *minimum* rate of discount on bills not having more than ninety-five days to run be raised from 9 to 10 per cent.

"HAMMOND CHUBB, *Secretary*."

In Patterson's "Science of Finance," pp. 237-239, the following observations are made with reference to the suspension of the Bank Act on this occasion:

"It was midnight before the announcement was made. In the interview which the deputation from the banks had with the Chancellor of the Exchequer, the necessity of suspending the Act was urged upon the Government by all present, except the representative of the Bank of England. This was mere bravado on the part of the bank. The other banks could have shut it up at once, simply by withdrawing the reserves which they keep at the bank. Indeed, one of the representatives of the joint-stock banks is reported to have said plainly, addressing the bank's representative, 'I can draw a couple of cheques to-morrow morning which will shut you up at once.' The Bank Directors knew this quite well; but they knew also that they could indulge in bravado safely, as it was perfectly certain that the Bank Act must be suspended. . . . The effect of the announcement of the suspension of the Bank Act was so salutary that next day (Saturday) it was generally thought that the crisis was at an end. But, as became visible in a day or two, the crisis was not at an end—the panic revived. Large commercial failures began, imperilling the banks which held the bills of the fallen merchants; the 'bearing' operations went on; a run for deposits was kept up on several of the banks. It was impossible for these establishments to convert their securities into bank-notes in sufficient amount to meet the run upon them. After paying out 50 per cent. of its de-

posits in cash, the Bank of London (a substantially solvent establishment) had to stop; as almost every bank in like circumstances must do. When the Bank of London stopped, the Consolidated Bank came to the rescue. . . . But as the Consolidated Bank did not engage to take over the 'acceptances' of the Bank of London, the legality of the arrangements between the two banks was challenged, and the Consolidated Bank was threatened with a suit in Chancery. . . . In these circumstances, the Consolidated Bank was unable to meet the run upon it; and after paying out a large sum to the depositors of the Bank of London as well as its own during a struggle of three days, it closed its doors. After a still longer struggle—and mainly in consequence of a lying telegram sent from this country to Bombay, announcing its failure—the Agra and Masterman's Bank was likewise compelled to suspend payment.

"Contemplate the magnitude of the disaster. Overend, Gurney, and Co., the oldest and most powerful discount-house in the kingdom—the English Joint-Stock Bank, which fell because a large portion of its deposits was locked up in the stoppage of Overend and Co.—the Imperial Mercantile Credit Company, the European Bank, the Bank of London, the Consolidated Bank, and the Agra and Masterman's, with its wide-spread connections, were wrecked during that terrible season of panic. All three—the Bank of London, the Consolidated Bank, and the Agra and Masterman's—were perfectly solvent establishments; and the two latter subsequently resumed business. Their suspension (which was only momentary in the case of the Consolidated Bank) was caused not by a want of assets, but from the impossibility of converting their assets into currency (Bank of England notes), in order to meet the unusual demand upon them."

The several panics that have occurred have originated, or are supposed to have originated, in as many distinct causes. Thus, the panic of 1825 has been ascribed to anticipated profits on working foreign mines; that of 1836 chiefly to the rapid extension of joint-stock banks; that of 1847 to excessive railway undertakings; that of 1857 to reckless over-trading; and that of 1866 (mainly due to a mistaken estimate of the advantages of the Limited Liability Act, which led to the too rapid formation of financial companies), has been styled a "banking panic." But, although it be true that each crisis of the kind is in large part produced by a distinct proximate cause, yet the primary cause of each and all is inordinate speculation begotten of the lust of gold. Men are in haste to be rich. This is no new thing. It has been observable in all times, and in all countries. But the fact is more patent now than ever. Men live, as they journey, at railroad pace. So long as appearances can be kept up, they "lay the flattering unction to their souls" that some lucky hit will make all right. Honesty gives place to expediency. Shifts, evasions, trickery, undermine the moral sense, and grow into confirmed habits. The shams of private life are transported into men's public business. To seem is to be. Existence is undervalued unless men can "grow to what they seem" as respects wealth, and hence petty frauds develop into gigantic swindles.

The disclosures elicited by the Select Committee of the House of Commons (appointed, after the panic of 1857, to inquire into the operation of the Bank Act of 1844), and published in their Report issued the succeeding year, show, so instructively, the mechanism of the "bubble-blowing," whose brilliant but evanescent colours dazzle and bewilder the public eye so as to cheat the multitude into a belief of the airy nothings being globes of solid metal, that we

quote largely from its warning pages. It is to be regretted that a like inquiry was not instituted after the panic of 1866. Revelations of even more startling character would, most probably, have been the result. The exposure of the machinery of commercial fraud, of banking incapacity, and of general gullibility which we proceed to extract, will, however, apply, *mutatis mutandis*, to every monetary crisis yet recorded; and affords far too valuable a lesson to be omitted. The Committee, then, report as follows:

"The first occurrence in this country which caused alarm, was the failure of the house of Macdonald and Co., of Glasgow and London, which took place in October, and was accompanied by the failures of Monteith and Co., and Wallace and Co., of Glasgow. The house of Macdonald employed a great many work-people in sewing muslin goods for the home trade, and for the American market, and this they carried on to a very large extent. They had been in fair credit till very nearly the time of their failure, but shortly before that period they are described as having given out that they had changed their mode of doing business, for the purpose of embracing a wider field. This, however, is represented as having been a deception, intended to cover *a system to which they had recourse of drawing fictitious bills*, and to give to those bills the appearance of genuine business transactions.

"From the records of the public tribunals, it appears that a very considerable number of persons (one of the partners is said to have admitted as many as seventy-five) in London, and other places, were employed by this firm, *for a small commission*, to put their names to fictitious bills, which were then discounted, a large proportion of them in Glasgow; and when the house of Macdonald failed, it was found to be indebted to the Western Bank £422,000.

"For a general review of the failures which occurred in England your Committee have been indebted to Mr. Coleman and to Mr. Ball, of the firm of Messrs. Quilter and Ball, both eminent accountants in London. These gentlemen do not profess to have studied abstruse questions of currency; they do not represent themselves as particularly conversant with the operation of the Act of 1844. They, however, assign what appears to your committee an adequate cause for the recent commercial crisis. Availing themselves of their experience in 1847, the affairs of which have now been finally closed, to illustrate the transactions of 1857, which still appear in estimate, and are therefore liable to correction, they ascribe the calamities of both periods to the same principal cause—viz., the great abuse of credit, and consequent over-trading. They notice also this difference between the two periods: many of the houses which fell in 1847, they say, had once been wealthy, but had long ceased to be so. Those of 1857 had, with few exceptions, never possessed adequate capital, but carried on extensive transactions by fictitious credit. In 1847, for example, one house, which had been originally wealthy, failed, with liabilities amounting, in the whole, to upwards of £1,800,000, of which not quite £1,000,000 were to be paid by other parties, leaving more than £800,000 the direct liabilities of the house. The capital, as represented in their books at the time of suspension, was £215,000, and the assets, according to their own valuation, £800,000, or nearly sufficient to meet the whole of their liabilities. Very different, however, was the valuation of the accountant, who estimated their assets at £185,000, and even that was materially diminished in the result. *The dividend ultimately paid was only ninepence in the pound!* This firm, originally merchants, insensibly advanced their capital to planters in the East

Indies, until it became necessary for them to be planters themselves. They then were compelled to obtain advances from others, which they accomplished by the sale and circulation of bills in the East Indies upon the house, to a great extent. Obtaining credit in that manner they postponed their fall many years, and ultimately fell, paying only ninepence in the pound. In this case, advances had been made on the credit of the next year's crop. This was an extreme case, and was connected with peculiar considerations at that time affecting the price of colonial produce, the principal property of the house. But Mr. Coleman, from whose evidence these particulars have been taken, says, that the estates which came under his notice as insolvent in that year, paid generally very small dividends, not averaging more than 4*s*.

"Another example of the same period is described by Mr. Ball as follows: It was that of a house which failed in 1847; they were engaged very largely as merchants in this country, and they were a house of very old standing. In the course of their business, they came under advances to a house in one of the colonies, on the security of the crops to be sent forward from time to time. The parties to whom those advances were so made failed to repay them; that is to say, to recoup the London house for them; and eventually the London house was obliged to take upon themselves the business which was originally conducted by those whom they accommodated with advances; in other words, the merchant in London did practically become the planter and the owner of estates. After he had so become the planter, his position was changed from that of being a person who made advances, and he himself found it necessary to obtain advances. Most likely the course would be this, that the house on the other side, perhaps the correspondents themselves of the London house, would draw

upon the London house, or draw upon some third party, and remit to the London house; which bill the London house would take to its banker and get discounted, and by that process would be placed in funds to provide from time to time for its own engagements. The result of which would be to sustain for some time the credit of the house, after the capital of the house had been exhausted. The effect would be to enable them to hold produce in expectation of better prices; the longer it was continued, the heavier would be the ultimate loss. After an interval of ten years, this house has, within the last few months, paid a final dividend, *making a total of* 1*s.* 10*d. in the pound.*

"Mr. Ball is asked:

"'Looking back to the experience of the year 1847, were the dividends that were paid by the insolvent houses generally very small?'—'The average dividend would be small, so far as I recollect. Here and there would be a house which would pay in full, or would pay a very large dividend; but the general result was, that a small dividend upon the whole was received by the creditors.'

"'Looking back now, with your experience, to the results of 1847, is it your opinion that if the law had afforded greater facilities for obtaining credit at that time for the purpose of sustaining these houses longer, the result would have been more advantageous to the houses themselves, or to the community at large?'—'Knowing what I do of the internal state of those houses when they did stop, I should say that had they been able to obtain further credit for a continued period of time, it would only have had a temporary effect upon their position, and that most of them (of course I have a reserve of some good cases in my mind), from their internal condition being worn out, and from the want of real capital in their concerns, must have failed ultimately, and that the *longer the assist-*

ance was continued simply upon their credit, the greater the ultimate loss would be.'

"'Such is your view of the failures that took place in 1847, speaking generally?'—'That is my view.'

"Your Committee have thought it not irrelevant to place on record these instances, which it was not in the power of their predecessors in 1848 to give, because they furnish an instructive example how readily misfortunes are at the time attributed by the sufferers, and others sympathizing with them, to the operation of statutory enactments, which misfortunes, upon a full review of all the circumstances attending them, it is obvious *that no wisdom of the legislature, no regulation of the currency could have prevented.*

"Your Committee have before them the particulars of thirty houses which failed in 1857. The aggregate liability of these houses is £9,080,000; of this sum the liabilities which other parties ought to provide for amount to £5,215,000, and the estimated assets, £2,317,000. Besides the failures which arose from the suspension of American remittances, another class of failures is disclosed. The nature of these transactions was the system of open credits which were granted; that is, by granting to persons abroad liberty to draw upon the house in England to such extent as had been agreed upon between them; those drafts were then negotiated upon the foreign exchanges, and found their way to England, with the understanding that they were to be provided for at maturity. They were principally provided for, not by staple commodities, but by other bills that were sent to take them up. There was no real basis to the transaction, but the whole affair was a means of raising a temporary command of capital for the convenience of the individuals concerned, merely a bare commission hanging upon it; a banker's

commission was all that the houses in England got upon those transactions, with the exception of receiving the consignments probably of goods from certain parties, which brought them a merchant's commission upon them; but they formed a very small amount in comparison with the amount of credits which were granted. One house, at the time of its suspension, was under obligation to the world *to the extent of about* £900,000. *Its capital at the last time of taking stock was under* £10,000. Its business was chiefly the granting of open credits—*i.e.*, the house permitted itself to be drawn upon by foreign houses without any remittance previously or contemporaneously made, but with an engagement that it should be made before the acceptance arrived at maturity. In these cases, the inducement to give the acceptance is a commission varying from ½ to 1½ per cent. The acceptances are rendered available by being discounted, as will appear hereafter, when the affairs of the banks which failed come under our notice.

"The obvious effect of such a system is first, unduly to enhance, and then, whilst it continues, to sustain the price of commodities. In 1857, that fall of prices which, according to Mr. Neave, 'far-seeing people had anticipated,' actually occurred. Tables have been put in by more than one of the witnesses, exhibiting an average fall of 20 or 30 per cent., in many instances much more, upon the comparison of July, 1857, with January, 1858. It needs no argument to prove what effect such a fall must have upon houses which had accepted bills, on the security of produce consigned, *to the extent of one hundred times the amount of their own capital.*

"The witness is asked:

"'In the case which you are now describing to the Committee, these transactions had gone on to the extent of £900,000. The real guarantee was partly produce and

partly bills of exchange; to whatever extent that produce was depreciated, of course the liability of the firm to failure would arise, and the capital of that firm, to meet such depreciation of produce, was about one-hundredth part of the whole of their liabilities?'—'That is so.'

"'Do you consider that case to be a fair illustration of the recent commercial disasters which have occurred?'—'I think it is, though I should mention that in some cases the proportion of capital possessed was larger than that which I have mentioned. . . .'

"The commercial crisis was very little felt in Ireland until the failure of some of the banks in England and Scotland. The trade of Ireland, with the exception of that of Belfast, being little connected with the United States, did not feel directly the effect of the failures there, but when failures began to take place at home, there was an internal pressure consequent upon them, which, about the early part of the month of November, manifested itself severely in a demand for gold by depositors and holders of notes, and there was a run on the savings banks. The Bank of Ireland advanced to the banks in Ireland requiring gold to the extent of about £250,000; and they were obliged to draw from the Bank of England from £1,000,000 to £1,200,000 besides. Belfast has a large trade with the United States, as well as a constant intercourse with Scotland, but there was no alarm until the time of the Scotch bank failures. *There was then, what had never been known before in Belfast since the institution of the joint-stock banks, a considerable run for gold in exchange for their notes.* But the amount of gold which they held under the Act of 1845 was a source of strength. The banks appear to be well constituted, and no serious results ensued. . . .

"Your Committee have examined Mr. Joshua Dixon,

who in August, 1857, first assumed the post of managing director of the Borough Bank; Mr. Fleming, who has been, since July, 1857, assistant manager, manager or liquidator of the Western Bank of Scotland; and Mr. Kirkman Hodgson, a member of the House, and director of the Bank of England, who, being well acquainted with the trade of Newcastle, went to that town in November, for the purpose of ascertaining how far it was right that the Bank of England should give assistance to the Northumberland Bank.

"The state of these three banks at the time of their failure may be collected from the following summary, viz.:

"Mr. Joshua Dixon, for many years resident in the United States, and once a private banker at New Orleans, settled at Liverpool in 1852, and soon afterwards became a shareholder and director of the Borough Bank. This institution was originally a private bank, that of Messrs. Hope, in whose hands it was prosperous, and they retired as wealthy men about the year 1834. In 1847, however, the Borough Bank was under the necessity of obtaining assistance from the Bank of England. When Mr. Dixon became connected with it, he found that the board, which consisted of twelve directors, chose two managing directors and a chairman. The entire management of the bank was amongst the managing directors and the manager. On the 1st August, 1857, Mr. Dixon himself became a managing director, and thus describes the state in which he found the affairs of the bank:—Its position, he says, was that of its available means being very much reduced, being far smaller than was at all consistent with the sound and safe position of the bank. Speaking irrespectively of any general commercial pressure, he tells your Committee that, from the 1st of August, when his attendance at the bank was daily, as he became more and more thoroughly

acquainted with the position of individual accounts, and with the whole circumstances of the bank in proportion as time lapsed, he became more and more convinced that the position of the bank was one of exceeding danger. When the commercial crisis showed itself, of course the danger to the Borough Bank became imminent, and they made an application to the Bank of England for assistance, some time between the 20th and the 23rd of October. The position, in general terms, of the bank was, that its assets were all locked up and unavailable, and that some £600,000 or £700,000 of its assets or claims on its debtors, which had until a short time previously been considered good, could not be relied upon, even for ultimate realization. About £3,500,000 bills were at that time in London under the indorsement of the Borough Bank of Liverpool; of which from £700,000 to £1,000,000 *had no negotiable validity at all*, except the indorsement of the Borough Bank of Liverpool.

"Pending the negotiations with the Bank of England, there appeared in the 'Times,' of October 27th, an article stating that arrangements had been made for giving assistance to the Borough Bank; in consequence of which a run took place, and the doors of the bank were closed. That run lasted only two or three hours, but the cash at their command was reduced to between £15,000 and £20,000; while their liabilities on deposit were in all £1,200,000, of which £800,000 were at call, and the remainder at periods varying from two to six months. The dividend at this bank, which had previously been seven per cent., had, at the last meeting, held on 10th July, 1857, been reduced to five; and the sum of £165,000 was, on the face of the report, acknowledged to have been lost. *The total loss*, so far as the witness could estimate it, amounted to £940,000, *being the total capital of the bank.* It is as-

cribed, not to advances improperly made to favoured persons, but to want of discretion in the management.

"The Western Bank of Scotland was founded in 1832. In 1834 it was already in difficulties, and their correspondents in London dishonoured their bills. They applied to the other banks for assistance, and received it upon certain conditions. In the year 1838 they applied to the Board of Trade for letters patent, which were refused. At this time the Bank of Scotland and other banks addressed a memorial to Mr. Poulett Thomson, alleging the breach of the conditions referred to.

"In 1847 the Western Bank was again in difficulties. and was assisted by the Bank of England, receiving an advance of £300,000. The then manager, Mr. Donald Smith, appears to have taken alarm from the occurrences of 1847; and in 1852, when he retired, the bank, though not in a satisfactory position, stood better than it had stood before since 1847. When it failed on 9th November, 1857, it appeared that the four insolvent houses of Macdonald, Monteith, Wallace, and Pattison, *were indebted to it in the sum of* £1,603,000; *the whole capital of the bank being only* £1,500,000. One of the conditions of the co-partnery was, 'that if it shall at any time appear, on balancing the company's books, that a sum equal to £25 per centum on the advanced capital stock of the company has been lost in prosecution of the business of the company, such loss shall, *ipso facto*, and without the necessity of any further procedure, dissolve and put an end to the company.'

"Mr. Fleming became assistant manager in July, 1857, and at once examined the affairs. He estimated that even supposing the debts of these four houses (which had not yet become insolvent) were assumed to be good, there appeared on the face of the books as good assets £573,000

of bad debts; and deducting the rest and guarantee fund, which then amounted to £246,000, there remained an apparent deficiency or encroachment on the capital of the bank of £327,000. This of itself nearly approached the limit which dissolved the partnership and put an end to the existence of the board; and of this state of affairs Mr. Fleming believes that up to that time the directors were in a state of almost entire ignorance. In 1853, previously to the first meeting of the shareholders after Mr. Smith's departure, an examination was instituted preparatory to the annual balance. From a confidential paper, having marks upon it in the handwriting of the then manager, it appears that a sum of £260,000 was reported to him as irrecoverable on one branch of the assets, *which nevertheless appeared as good assets in the published balance-sheet.* The modes in which this kind of disguise can be accomplished will perhaps be best understood by stating the manner in which a debt called 'Scarth's debt,' comprised in a different branch of the assets, was disposed of. That debt amounted to £120,000, and it ought to have appeared among the protested bills. It was, however, divided into four or five open credit accounts, bearing the names of the acceptors of Scarth's bills. These accounts were debited with the amount of their respective acceptances, and insurances were effected on the lives of the debtors to the extent of £75,000. On these insurances £33,000 have since been paid as premiums by the bank itself. These all now stand as assets in the books. Though this substitution took place in 1848, yet down to the time when Mr. Fleming's examinations began to bring to light the true state of affairs, the six directors appear to have regarded these sums as part of the available property of the shareholders. This being the actual state of the accounts, the dividend was raised in 1854 from 7 to 8

per cent., and in 1856 to 9 per cent. *Nine per cent. was the dividend declared in June*, 1857, at which date a very slight acquaintance with the books must have led to the strongest suspicion, not to say to the clear conviction, *that for some time a considerable portion of the capital had been lost.*

"This bank had 101 branches throughout Scotland. It had connections in America, who were allowed to draw upon it for the mere sake of the commission. At home it made advances upon 'indents;' or, in other words, provided the manufacturer with the capital with which yet unmade cloth was thereafter to be produced. Its discounts, which in 1853 were £14,987,000, had been increased in 1857 (till 9th November) to £20,691,000. With what care this business was conducted may appear from the circumstances *that Macdonald's bills were accepted by* 124 *different parties; that only* 37 *had been inquired about, and in the case of* 21 *the reports received from the correspondents of the bank were unsatisfactory, or positively bad.* Yet the credit given to Macdonald continued undiminished. The rediscounts of the bank in London, which in 1852 had been £407,000, rose in 1856 to £5,407,000. The exchanges of notes in Edinburgh have been always against the Western Bank, and for an average of the last six years to an extent of not less than £3,000,000 a year. This circumstance is accounted for by Mr. Fleming chiefly by reference to the nature of the transactions with Macdonald's and other houses in accommodation bills; £988,000 were due to the bank from its own shareholders.

"About the end of October the Northumberland and Durham Bank applied for assistance to the Bank of England. It was declined, as they could not give any satisfactory explanation of their real position. They applied a second time, urging the great peril in which they were

placed by the continued discredit, and by the constant drain of small deposits; they urged also the fear of disturbances and breach of the peace which might ensue if they were to fail, they being so largely connected with collieries and ironworks. Accordingly on Tuesday, 24th November, Mr. Hodgson went down to Newcastle, and told the directors that he had been sent down by the Bank of England to examine into their books, and see whether it was possible to render them such assistance as would enable them to go on; but that the first condition of the bank doing anything was that they should prove themselves solvent. The result was that Mr. Hodgson found the liabilities, as then stated, amounting to £2,600,000 of which there were £1,350,000 of deposits, £1,150,000 accounts current, and they had rediscounted £1,500,000, of which they expected that £100,000 would come back upon them, and for which they would ultimately be liable, making altogether £2,600,000. Their assets were of a very peculiar nature indeed, the early realization of which would be almost impossible. They held about £1,000,000 in securities of different kinds. They held in trade bills, that is to say, small bills on shopkeepers of Newcastle, about £250,000; bills which were probably good in themselves, but which were not available anywhere out of Newcastle; they were not bills which could have been discounted in any other part of the money market. They had in overdrawn accounts £1,664,000, without any specific securities attached to them. Of these £1,664,000, there were £400,000 which one of the directors very candidly confessed must be considered as totally bad, *and which ought to have been written off long before, but which still remained in the account as good debts.* The capital of the concern was £656,000 nominally, but in reality it was considerably less than that; because in 1847

they had been in trouble, and in order to get out of that trouble they had made a call of £5 or £10 a share, which was not paid upon some of the shares, which shares were forfeited, and taken by them into the stock of their bank, to be reissued should occasion warrant their doing so. The consequence was that the subscribed capital of the bank was about £600,000. This statement at once showed that any attempt to help them, short of taking up the whole concern and liquidating it for them, would be perfectly useless. It was evident that the whole capital was gone; and, looking at the character of the securities, Mr. Hodgson came to the conclusion, not only that the capital was gone, *but that the bank was totally insolvent.* Being very much struck with the extraordinary loss which had taken place in the bank, which, when a private bank, he knew to have been a very flourishing one, he inquired whether there was not some old sore of which nothing had as yet been said. He was told that there was one; there was rather a disinclination to mention what it was, but he felt it his duty to press it, and they told him they had a very large debt with the Derwent Iron Company. He inquired the amount of his debt, and found, much to his astonishment, that it amounted to £750,000, the capital of the bank being £600,000. For that debt there was a kind of security, which consisted of £250,000 of what were called Derwent Iron Company's debentures which were, however, in reality, *nothing but the promissory notes of the directors*, there being very few persons in this Derwent Iron Company. The bank had also £100,000 mortgage on the plant, and the remaining £400,000 was totally unsecured. In addition to this original debt then mentioned of £750,000, there is now another charge upon it of £197,000, resulting from bills which have not been paid, and which, in order that the Derwent Iron Company

might get them discounted, the bank had endorsed or otherwise guaranteed. These have now come back, so that the total liability for which the Derwent Iron Company is indebted to the bank is about £947,000; very nearly £1,000,000. The Derwent Iron Company appears to have been, almost from the time of the conversion of the bank into a joint-stock bank, very intimately connected with it. Mr. Jonathan Richardson, who was the moving spring of the whole bank, in fact the person who managed everything, was, *though not a partner in the Derwent Iron Company, very largely interested in it* as holding the royalties upon the minerals which they worked. It appears that the concern has been worked extremely badly; that it has never made any profits at all, even in the very finest years, for the ironmasters, *and it has gone on absorbing the money of the bank unchecked by the directors.*

"Mr. Hodgson says that £1,000,000 of securities were taken of the most extraordinary nature for any bank to hold that he ever saw; that £1,000,000 of securities, which was the only tangible asset which they had against the £2,600,000 of liabilities, consisted of £350,000 of the Derwent Iron Company's obligations, £250,000 being debentures, and £100,000 mortgage on the plant. They had besides these, £100,000 on a building speculation at Elswick, near Newcastle, which however was not a primary mortgage, there being a mortgage of £20,000 on that land belonging to Mr. Hodgson Hinde. They had also another £100,000 on other building land and houses in the neighbourhood of Newcastle. They had about £350,000 in securities of works and manufactures of different sorts, and they had about £50,000 in navigation bonds guaranteed by the railway, but which railway was the only security to which they could look in any given time to realize any sum of money; that made about £1,000,000 altogether.

The other securities were absolutely unmarketable. This bank had derived assistance from the Bank of England in the former crisis, that of 1847. Almost exactly the same circumstances arose then which arose in 1857, and almost from the same cause. The bank, however, applied at that time to the agent of the Bank of England at Newcastle, and he, on his own responsibility, made them a very large advance, which carried them through; he taking at the same time a very considerable security from them in various mortgages, pretty much of the character which has been above mentioned, but better in quality, although not any more banking securities than these; between £700,000 and £800,000 altogether.

"'The whole of the advance made in 1847 was repaid to the Bank of England, was it not?'—'Yes. With regard to the late occasion I represented at the same time that, though the bank could not be assisted, yet the fact of its failing, which it would do the moment it was known that the Bank of England would not help it, would be at that moment a very serious thing for the district, because it was so much connected with the collieries and ironworks that it paid every week, either for persons who had balances with it, or for persons whose bills it discounted, and thus gave them the money, about £35,000, on which the wages of 30,000 people were dependent; and as their pay-day was on the Friday, and the bank would stop on the Thursday, it was very desirable that something should be done to prevent the confusion which would arise if there was no preparation made for that conjuncture. In consequence of that the Bank of England requested me to go down again that night, with full powers to make arrangements with all persons who might have any tangible and good security, though, perhaps, not perfectly regular security, so as to provide them with the means of making their pays on the

Friday. I went down accordingly, and arranged with almost everybody, or with everybody, I may say, to make such advances as would enable them to meet the pays for that week and for the next, should it be necessary. I also advised the manager of the savings bank to open his bank on Saturday for payments, though it was not the usual day, and authorized him to draw upon the Bank of England for any sum of money which he might require for the purpose of making any payment; but owing to the fact of the Bank of England thus enabling the proprietors, the coal mines, and the works, to make their weekly payments, there was no run whatever upon the savings bank, and everything passed off quite quietly.'

"'Was there any limit to the authority which you had from the Bank of England to give assistance in Newcastle?' —'No, there was no limit, it was left to my discretion to do what might be necessary. We knew very well that it could not amount to a sum, under any circumstances, of much more than from £50,000 to £70,000.'

"'Are there any other particulars connected with the Newcastle Bank which you are able to lay before the committee?'—'I will, if the committee wish, give them the actual result of the accounts of the bank when it was finally wound up in January this year, as compared with those in November, 1857: it will show a little difference. In November, 1857, the liabilities of the bank were £2,600,000; these consisted of deposits, £1,350,000; accounts current, £1,150,000; and estimated liabilities on rediscounts, £100,000. In January, when the bank was positively wound up and the thing ascertained, it appeared that there were of deposits £1,256,000, in accounts current, £766,000, and in liabilities on rediscounts, £231,000. The only great difference was in the accounts current, which were diminished about £400,000. This was principally, I believe,

from the fact that many persons who had accounts current had deposit accounts also; they kept two accounts, one of which had a balance in its favour, and the other was overdrawn; therefore, one account being set against the other, it diminished it by so much, and at the same time diminished the amount of overdrawn accounts; the assets which were estimated in November at £2,500,000 had fallen in January to £2,000,000; and there was one peculiarity, which was, that while the debt of the Derwent Iron Company was taken as an asset in November at £750,000, in January it was taken as an asset at £947,000, and that it is an asset of a very doubtful nature; *the position of the bank is much worse in reality than is shown by the statement of the figures.*'

"This disclosure was the result of an examination which lasted about two hours; *yet the bank had declared, at the last half-yearly meeting, a dividend of seven per cent., making to the shareholders a statement the substance of which showed a very prosperous state of things.* Mr. Hodgson mentions that he remarked on the fact of their having declared a dividend in June, when it was admitted that half the capital was lost, and he asked how they could have done so; it was stated, in reply, that there were so many persons who depended entirely for their livelihood on the dividends received, that they really could not bear to face them without paying any dividend.

"Each of these three banks had been in peril in 1847, and though by the assistance of the Bank of England they were enabled to surmount it, they fell on the next occasion of severe commercial pressure, under circumstances still more injurious both to their own proprietors and to the public. Two bill-broking houses in London suspended payment in 1847, both afterwards resumed business. In 1857 both suspended again. The liabilities of one house

in 1847 were, in round numbers, £2,683,000, with a capital of £180,000; the liabilities of the same house in 1857 were £5,300,000, the capital much smaller, probably not more than one-fourth of what it was in 1847. The liabilities of the other firm were between £3,000,000 and £4,000,000 at each period of stoppage, with a capital not exceeding £45,000.

"These five houses contributed more than any others to the commercial disaster and discredit of 1857. It is impossible for your committee to attribute the failure of such establishments to any other cause than *to their own inherent unsoundness, the natural, the inevitable result of their own misconduct.*

"Thus we have traced a system under which extensive fictitious credits have been created by means of accommodation bills and open credits, great facilities for which have been afforded by the practice of joint-stock country banks discounting such bills, and rediscounting them with the bill brokers in the London market, upon the credit of the bank alone, without reference to the quality of the bills otherwise. The rediscounter relies on the belief that if the bank suspend and the bills are not met at maturity, he will obtain from the Bank of England such immediate assistance as will save him from the consequences. Thus, Mr. Dixon states, 'In incidental conversation about the whole affair, one of the bill brokers made the remark that if it had not been for Sir Robert Peel's Act the Borough Bank need not have suspended. In reply to that I said, that whatever might be the merits of Sir Robert Peel's Act, for my own part, I would not have been willing to lift a finger to assist the Borough Bank through its difficulties, if the so doing had involved the continuance of such a wretched system of business as had been practised; and I said, if I had only known half as much of the

proceedings of the Borough Bank while I was a director (referring to the time previous to the 1st of August, when I became a managing director) as you must have known, by seeing a great many of the bills of the Borough Bank discounted, you would never have caught me being a shareholder;' the rejoinder to which was, 'Nor would you have caught me being a shareholder; it was very well for me to discount the bills, but I would not have been a shareholder either.'"

The foregoing disclosures are as beacon lights to warn against the dangers of the rocks and shoals and quicksands which beset the track of modern adventurers in search of the Golden Fleece. Disclosures of the kind could be multiplied almost *ad infinitum*. But, once the gold-fever sets in, it rages until the moment of the crisis. And what follows then? We cannot answer the query better than by quoting from her "History of the Thirty Years' Peace," Miss Martineau's description of the consequences resulting from the terrible panic of 1825:

"There are many now living," wrote that talented lady in 1846, "who remember that year with bitter pain. They saw parents grow white-haired in a week's time; lovers parted on the eve of marriage; light-hearted girls sent forth from home as governesses or sempstresses; governesses, too old for new situations, going actually into the workhouse; rural gentry quitting their lands; and whole families relinquishing every prospect in life, and standing as bare under the storm as Lear and his strange comrades upon the heath!"

Must these vicissitudes continue? A recent writer on the subject[1] remarks—

"If crises must work their will when they arise, how are

[1] Mr. Bonamy Price, in No. CVI. of the "North British Review."

they to be prevented in the future: The problem is difficult, yet not absolutely insoluble. The difficulty lies more in moral than in physical or trade forces: it is the want of knowledge, and still more of observation and reflection, which generates real crises. . . . . Crisis is not merely another word for poverty. If the diminution of wealth is met by wise curtailment of speculation even in its legitimate form, property may dwindle, but the convulsions peculiar to a crisis will not be developed. Then, again, if farmers never drained except with the surplus of a good harvest, if manufacturers never built new mills except out of realized profits, if goods were not produced except under a very strong presumption that they were in demand, if bankers never lent except upon solid and realizable security, no crisis would ever desolate the world. Traders and bankers, like sailors, have a difficult task in predicting the coming weather; and, like sailors, they must try to acquire the sailor's eye—the faculty of discerning small signs and judging their significance accordingly. The vital point is that they should notice the right things, the causes which are at work in brewing mischief. They must be studied at their origin. The difference between the intelligent merchant or banker, and the unintelligent, lies in the ability to understand the forces which make deposits and their withdrawals great or small—in the skill *rerum cognoscere causas.* This is a wide study beyond doubt. It is easier, no doubt, to float down the stream as it runs in the present, to make profits and to let to-morrow take its chance, or to set up some empirical rule, some high-sounding jargon, without stopping to inquire whether it possesses the reality as well as the look of knowledge. But if men choose to let their actions be guided by such methods, they must look out for crises—sharp, sudden, and overwhelming crises. The responsibility weighs heaviest upon

banks, not upon the Bank of England only, as some proclaim, but upon all bankers collectively. Everything depends on the sagacity and prudence they bring to bear on the loans they grant. The periodical recurrence of these convulsions seems to indicate that prudence lasts a year or two after disaster has punished folly; care and caution are developed in all commercial classes; and the energy and industry of the people restore the losses incurred. Prosperity follows; prudence gradually disappears; then heedlessness encourages every kind of enterprise; and again the thunder and lightning avenge forgotten virtue."

SECTION XXXIV.

THE CRISES OF 1875 AND 1878.

THE quotation with which we closed the preceding section constitutes a heavy, and we fear too true, indictment against a certain class of bankers, for it is beyond doubt that to a large extent they are responsible for the panics which recur from time to time.

Constituted as human nature and human society at present are, the speculative mania in times of ease is sure to fan itself into new life, like the phoenix, and seize upon the minds of those, who, so long as their own selfish interests are served, are utterly regardless of the general good. And it is at this juncture that the prudent banker ought to step in and put difficulties in the way of the attainment of the objects of such individuals. Were this done more often, were fewer advances made on dead and unmarketable securities, and for long periods, and were consequently a banker's resources more readily available in times of pressure, we should have fewer panics, and those of a much less virulent nature. It is the facile acceptance in times of ease by the easy-going, unobservant, unreflective banker, of the illegitimate proposals of speculative individuals of all classes that paves the way in the long run for the inevitable reaction and ultimate disaster.

The experience of the past shows that the lessons derived from the various panics which from time to time have visited us pass away from the minds of most men like

a vague dream. The writer whom we have just referred to, writing in 1866, truly says that prudence seems only to last for a year or two after disaster, during which time care and energy gradually restore the losses incurred; then prosperity again follows; prudence disappears and recklessness takes its place; and once more the cycle is completed by another panic.

That this has been so in the past is a matter of history, and that it will be so in the future is only too likely. The most we can hope for, we fear, is that the extreme virulence of panics in the future may be toned down by those who have the dispensation of credit in their hands being wise in time and putting the curb on all excessive speculation before it has gone too far.

There is good reason to hope that the lessons of the past have not been altogether fruitless, for, from whatever cause arising, it is certain that the crises which we are about to consider in this section, black though they for a time looked, never culminated into absolute panic.

The crises of 1875 and 1878 had their origin in very different causes from those of 1857 and 1866. In those years speculation had been carried on to a very dangerous extent, and as a consequence money was scarce, and the reserve of the Bank of England was at a very low ebb. But at the time of the crises of 1875 and 1878 money was abundant, and the Bank of England was in a position to supply all demands. The average reserve in the latter years was nearly double that of 1857 and 1866.

After the panic of 1866 had spent itself, and when confidence began to be restored, the value of money declined by easy stages from 10 per cent. in the middle of May, till the end of December, when the bank rate stood at $3\frac{1}{2}$ per cent. From this time onward for several years there was a period of a dead level of low rates and cheap money. From

the beginning of 1867 to the middle of 1870 the bank rate, except during April and May, 1869, never reached more than $3\frac{1}{2}$ per cent.

But about the midsummer of 1870 the disposition on the part of France to pick a quarrel with Germany began to be much noticed and commented upon, and the market, in order to be prepared for any eventuality, soon necessitated a rise in the bank rate. Events on the continent moved fast; and almost before men had time to comprehend the grounds of the dispute, France declared war on the 23rd of July. From the preceding November the bank rate had stood at 3 per cent. until the 21st of July, when it was raised to $3\frac{1}{2}$. From this point it was moved rapidly up to 4, 5, and 6 per cent., in consequence of the pulls on the reserve by those who wanted to make themselves safe in view of the seriousness of the struggle about to be engaged in, and of the possibility of a general European war. But when on reflection it was seen that England was not likely to become embroiled; and when money began to pour into this country for safe keeping from almost every European centre, the bank rate just as rapidly fell away from 6 per cent. on the 4th of August by easy gradations to $2\frac{1}{2}$ on the 29th of September, at which rate it remained till the following March.

Meanwhile, by a series of bloody victories the German armies had without a check completely conquered France. The Emperor, and the entire army which he nominally commanded, were captured at the battle of Sedan in the beginning of September. By the end of that month Strasburg was taken, and Paris was entirely invested. Metz capitulated at the end of October; and thereafter the chief attention of the German staff was concentrated upon the siege of Paris. The siege dragged slowly on until February, 1871, when an armistice was agreed upon, out of which

sprung at the end of that month a definitive peace. Among other terms which the Germans imposed was one that the French should pay an indemnity of two hundred millions of pounds, and that during its partial payment part of the German soldiery should occupy certain provinces of France. This procedure kept the wound open, and it was felt that so long as the Germans remained in the country any accident might lead to the renewal of hostilities. Hence foreign money remained in this country, and so kept rates low, although business was brisk enough.

No sooner did the terms of peace become known in Paris, than the Communists of Belleville and Montmartre, furious with the Government for agreeing to such conditions, rose in insurrection against it. No one could tell the possibilities that lay in the future. But every one felt that if the Government troops were not strong enough to put down the rising, the Germans, who were quartered in the towns around Paris, would have to return and occupy the city; and this contingency was looked upon with the greatest apprehension, in view of the heated state of the French mind at the time. Hence foreign money still remained in this country, keeping rates low.

From the beginning till the end of 1871 the bank rate never rose over 3 per cent., except for a week or two in the autumn, when it reached 4 and 5. The years 1872-73, were characterized by higher rates—the average being about $4\frac{1}{8}$ for 1872, and $4\frac{3}{4}$ for 1873, against about $2\frac{7}{8}$ for the previous year, and nearly $3\frac{1}{8}$ for 1870. This arose chiefly from the great drain of gold from this country in connection with the French war indemnity; and in addition, from the American panic in the autumn of 1873.

It will be remembered that this indemnity was about £200,000,000, and that its payment, according to the original proposition, was to extend over four years, during

which time, and in proportion to the amount unpaid, the Germans were to occupy certain parts of the country.

But M. Thiers, with the view of freeing every inch of the country at the earliest possible moment from foreign occupation, and with that superhuman energy and ability which he brought to bear on everything he took in hand, took steps to pay the indemnity forthwith. He issued a 5 per cent. loan of £80,000,000 in the summer of 1871, which in a few days was more than twice subscribed for in France alone. Out of this, before the end of the year, he paid Germany nearly fifty millions, of which over thirty millions consisted of bills on London.

By the imposition of fresh taxes, and in other ways, he paid a further instalment of twenty-five millions in the beginning of 1872.

In the summer of that year he issued a loan of £140,000,000, which turned out to be a most astonishing success. In France alone it was subscribed for five times over, while the foreign applications were for nearly seven times the amount. The total amount subscribed was £1,640,000,000.

Out of this loan France paid a further instalment of twenty millions, thereby making about 100 millions paid; and leaving about the same amount to be paid, in instalments of 20 millions due 1st February, 1873; 40 millions due 1st March, 1874; and 40 millions due 1st March, 1875. But M. Thiers anticipated all these instalments, and by his unprecedented energy and ability he finally wiped off the whole of this balance of the indemnity by monthly payments extending from about the end of 1872 till the autumn of 1873.

The bulk of the indemnity having thus been paid in the years 1872-73, the chief monetary feature of these years was, as we have already said, the drain of gold from this

country. It was agreed that some of the first instalments of the indemnity should be paid in hard cash, and that the remainder should be paid in bills. Gold therefore in 1871 went direct from France, while in 1872-73 it chiefly went from England. The course was this:

English exchange being much more plentiful on the Paris market than that of any other country, the French Government bought as much of it as they possibly could, and remitted it to Berlin. The bills payable in London, so bought, were next sent by the German Government to their agents in this country—The London Joint-Stock Bank—for collection and credit of account at maturity. And then, from time to time and under instructions, the London Joint-Stock Bank bought gold of the Bank of England or in the open market, and shipped it to the German Government, by whom it was used up for the purposes of their new coinage.

The drain of gold from this cause had been so persistent and pronounced during the summer of 1872, that between June 20th and November 9th, the bank had been obliged to raise their rate from 3 to 7 per cent.; and at the last-named date, when the discount rate was 7, the bank were charging 9 per cent. for advances. Similarly, in the autumn of 1873, the discount rate was raised from 3 per cent. on the 21st of August to 9 per cent. on the 7th November; while on the latter date the bank were charging 12 per cent. for advances.

It can easily be imagined that, notwithstanding occasional tightnesses in the money market, this period was one of great prosperity in England. When the war broke out in 1870 people had not long recovered from the prostration following the panic of 1866. They *had* recovered, however, and had begun to breathe freely again, and to operate with confidence. They were ripe to take advantage

of any fortuitous event which might happen. And the event which did happen, unfortunately, was that unparalleled war, which, while benefiting this country, desolated France and Germany. As has been said the immediate effect of the war was to induce the wealthy classes on the continent to send their money to this country for safe-custody, or for investment, or for other employment. This made money abundant, raised the prices of securities, and generally gave a great impetus to trade. Traders, from the superabundance of money, were able to get it at a cheap rate, and to go into operations into which otherwise they could not go. Manufacturers also, having before their eyes the necessities of the contending armies, kept their hands going full time. The cloth trade, the leather trade, the chemical trade—every trade, in short, bearing directly or indirectly upon the equipment of soldiers in the field, was active. The coal and iron trades also began to look up. Indeed, deep seemed to call unto deep; and all round, almost without exception, every industry in this country was in a state of the greatest prosperity.

This condition of affairs lasted, generally speaking, for about three years, from the beginning of 1870 till the end of 1872. The height of this prosperity was reached during 1872 and the beginning of 1873 by the enormous prices of coal and iron. But this prosperity was by no means altogether an unmixed blessing. With many men money that comes easily goes easily. Merchants, manufacturers, and traders having a surplusage of money in their hands speculated wildly, and laid the foundation of that reaction which was inevitable. Workmen, especially the miners, instead of laying by some of their hard-earned money against a rainy day, spent their wages, which had been unprecedentedly high, in all kinds of sensual luxuries.

And what had been taking place here had been taking

place also abroad. America, like England, being outside the zone of conflict, benefited also by the war, and her prosperity also laid the seeds of future reaction. Germany herself, though enriched to an unprecedented degree by the war indemnity, also began to show signs of poverty. It might almost be said that the indemnity became a curse in her hands. She was like an ill-conditioned youth who suddenly finds himself the possessor of a large fortune. The careful protection of suddenly acquired wealth had formed no part of her education. "Light come, light go," is a maxim which is true in the case of nearly every human being, and the careful German was no exception to the rule.

Germany at this time passed through an experience such as England did in the years 1823-25. In the former year public companies were formed by hundreds, but no sooner had they been formed, and the promoters feathered their own nests, than the great bulk of them collapsed; and the larger number of those that remained were obliged to give way before the panic of 1825. Germany, as has been said, passed through the same experience. The immense amount of money which flowed into the country from France in 1871-3 gave birth to a great number of public companies, some good, some bad, some indifferent. The natural result followed. Companies formed at a period when money was plentiful did well enough for a time, and so long as money could easily be got to bolster them up; but so soon as money became scarce the inherent unsoundness of these concerns brought them to a standstill. As all classes of society were involved in these concerns, and as no more money was forthcoming, a crisis followed.

Austria being a neighbour of Germany, and being mixed up socially, financially, and otherwise, with the latter, the crisis extended to the former. These crises of course

naturally reflected upon England. Gold was withdrawn from the bank, and the rate was moved up from 4½ on the 7th of May to 5, 6, and 7 per cent.—the last-named on the 4th of June. This German crisis may be said to have been the first note of warning to us to put our house in order, and prepare for the inevitable reaction after a period of prosperity. The second took place later in the same year of 1873, and came from America in the autumn.

To understand thoroughly the causes of the American panic of this period, it is necessary to go back for some years and consider the system which prevailed there in the construction of railways.

After the Civil War came to an end, the Americans, with that wonderful energy for which they are remarkable, immediately turned their attention towards repairing the waste which the war had made. As a chief means to this end they developed their railway system; but this, for some years, they kept within reasonable bounds, and only constructed where construction was expedient. After a time, however, certain individuals, having got their hand in, and having as it were warmed to the work, saw their opportunity and embraced it. These individuals may be called professional company-mongers. They, for the sake of commissions, and the hundred and one pecuniary advantages derivable from such undertakings, promoted railways in districts which could not possibly support them. This was particularly the case in the building of what were called the "land grant" roads, in respect of which they could go to the public in justification of their enterprise, and feasibly plead that if those roads were not undertaken the land grant privileges would soon lapse.

Both before, and for some time after the war, railway enterprise was kept within due bounds, and was by no means in excess of the legitimate requirements of the

country. During the years 1850-59, the average annual increase of new railways was 2,159 miles; and during the years 1860-67 1,311 miles. But for some years after the last-named period the professional constructors began to come to the front, as we have said, and the result was an enormous and unnecessary annual increase of railway mileage.

The following table will show the extent of the mania which was prevalent during those years for the construction of new lines:

During	1868	there were built	2,979	miles
,,	1869	,,	4,953	,,
,,	1870	,,	5,690	,,
,,	1871	,,	7,670	,,
,,	1872	,,	6,167	,,
,,	1873	,,	3,948	,,
,,	1874	,,	1,940	,,

It will be inferred from what has been said of the inutility of the bulk of this fresh mileage that the public were not so foolish as to find the money for the whole of its construction. Really the construction was effected in great part without any real solid capital at all. The promoters of the railways financed them in some such way as this: Having possessed themselves of the necessary land, or land rights, they met together and formed what was called a "Pool." Thereafter the members of the pool, or certain members in turn, formed themselves into the railway company, the capital stock of which they *subscribed*, but for which they paid no cash. Then they, the members of the pool, being also the directors of the railway, generally sold to themselves the 6 or 7 per cent. bonds of the company at, say, 75 per cent. These bonds they then resold to the loan contractors who placed them with the

public. So far so good; but in addition to allotting to themselves the bonds of the company they also allotted to themselves as a kind of bonus the fully paid up ordinary stock of the company, for which they paid nothing.

It will be seen therefore that a company with a nominal capital of 20 million dollars, consisting of half of ordinary stock and half of first mortgage bonds, on which dividends were expected to be earned and paid, might only receive in actual capital about $7\frac{1}{2}$ million dollars, a large portion perhaps of which had already gone to pay for concessions, or land, or preliminaries, and leaving but a small portion wherewith to carry on the actual construction of the road. When therefore the actual capital had been all expended, which was very soon, recourse had to be had to financing to raise fresh money wherewith to carry on the works. This was accomplished by the companies pawning the lower classes of bonds with the financial houses—some of them of very high class standing—who raised the wind in the following manner. They either drew their own promissory notes, payable to their own order, at six months date, which notes were bought and sold by the note brokers at varying rates of interest and commission; or, they drew bills at sixty days' sight on their London correspondents and handed them to the railway companies, whose only care was to sell the bills in the market to the best advantage.

Whether the advances were made in the one form or the other, the result was the same in both cases. There being no funds to meet them as they fell due, they were renewed again and again, and were perpetually hawked about the streets, and drawing constant attention to a very reprehensible practice. At last these promissory note and bill operations got so large and unwieldy, that they began to be difficult to manage—the holders of the bills began

to feel alarmed—credit gave way—the railway works came to a standstill for want of money—and the companies to which we have referred went one and all into liquidation.

This sudden collapse of railway construction (it will be seen that in 1874 only 1,940 miles were built against an average of the previous five years of nearly 6,000 miles) intensified tenfold the collapse of the credit out of which it arose. The iron trade, which had been exceptionally prosperous in consequence of the enormous demand for railway material, was hurt; the provision trade, which had been equally prosperous from the requirements of the large number of labourers engaged on the works, was hurt; indeed, every interest connected directly or indirectly with railway undertakings received a blow against which it could not stand. In short, self-preservation became the order of the day all round, and in the process many had to go to the wall.

The first decided indication of the impending panic was the failure of two trust companies in New York and Brooklyn. The failures in themselves were unimportant, but they were naturally looked upon as the harbingers of something more serious. The state of mind begotten of such a strained condition of public credit was in itself calculated to precipitate any impending disaster, and it was felt that any additional circumstance, even of otherwise trifling importance, would bring the fabric of American credit down like a house of cards.

The requisite circumstance occurred about ten days later in the failure on the 18th September of Jay Cooke and Co. This failure was of the first importance. The firm were agents of the American Government, and formed part of the powerful syndicate who took up and placed in the hands of the public the five per cent. funded bonds of the Government. Hence they were looked upon as something

more than an ordinary firm, and to their failure was consequently attached a greater degree of importance. The usual result followed. Runs took place on the National and other banks of Washington, Philadelphia, and New York. The Washington and Philadelphia banks stood firm, and so did those of New York until Saturday, the 20th, when five banks and trust companies failed. At this point it was hoped the worst was over, but after a few days' lull the panic revived and spread, and numerous other failures took place, both in the West and South. Difficulty was experienced in selling exchange. Securities had to be realized, and consequently prices fell. Huge "Bear" accounts were opened, which still further depressed prices.

All this, naturally, considering the extent of the trade between this country and America, produced a considerable sensation upon trade circles here. The American exchange fell below gold point, and gold had to be shipped from this side. The bulk of the gold went between the 24th of September and the 15th of October, during which period the Bank reserve had decreased nearly five millions and a half. To protect the gold the Bank of England raised its rate, which had been standing at 3 per cent. since the 21st of August, to 4, 5, 6, 7, 8, and 9 per cent. between the 25th of September and the 7th of November. And contemporaneously with the three last-named rates, the Bank charged for advances 8, 10, and 12 per cent. These rates had at last the desired effect, for not only did they stop the further export of gold to America, but they also attracted gold from the Continent, Australia, and India, and the bullion in the Bank account again showed an increase on the 22nd of November.

About the beginning of December the crisis began to pass away. It had been sharp, and the recovery was cor-

respondingly slow. This again told against England, as America is our best customer, and she was in no condition to buy largely from us.

Hence the year 1874 was marked by business of a quiet, steady-going description, out of which little profit was made in any branch. It cannot be said there was any actual depression. The smallness of the volume of business arose chiefly in the reaction from the former period of prosperity, and from our large customer, America, not being in a position to buy from us as much as usual. Still, if there was little business doing, it was matter for thankfulness that there were few failures in 1874, and consequently little anxiety amongst the commercial classes. With the exception of a 5 and 6 per cent. rate on Nov. 16 and 30, caused by the usual autumnal drain of gold, aggravated by an unusual flow to Germany in connection with their new gold coinage operations, the Bank rate during 1874 was never higher than 4 per cent.

At the beginning of 1875 things looked better all round. The 6 per cent. rate during the closing month of 1874 had the effect of attracting gold from the Continent and elsewhere, and replenishing the Bank reserve. Money became plentiful and remained so; and it was fortunate that it did, for the comparatively fair outlook with which the year opened soon gave place to one of cloud and storm.

Business had for long been bad in South America, and losses there had been numerous and large. The knowledge of this fact caused all the London firms engaged in the South American trade, who were not of the first water, to be looked at somewhat askance, and as the result of this suspicion some heavy failures took place.

The first firm that succumbed was that of I. C. im Thurn and Co., with liabilities to the extent of three millions. This firm was peculiarly open to attacks upon their credit,

for their name was continually before the London bankers and bill brokers in the shape of their acceptances in connection with their numerous financial operations. Then followed, as a matter of course, the difficulties of the Hamilton Windsor Iron Works Company, of Liverpool, and Clark, Punchard, and Co., contractors, of London, both of whom were mixed up with the Buenos Ayres Railway Company, whose drafts upon im Thurn and Co., to the extent of about £400,000, were floating about on the London market. Then, partly from its connection with these concerns, and partly from its inherent unsoundness and mismanagement, the General South American Company stopped payment with liabilities of £400,000, but it is right to add that eventually this company paid dividends amounting to 20*s.* in the pound. In addition to these there were numerous other failures in the South American trade, which, though of less moment, helped to deepen the anxiety which was felt, and which was fast paving the way for the crisis which occurred a little later on.

Meanwhile, however, things quieted down somewhat, and men were beginning to hope that the worst was past, when new cause for anxiety came from a totally different quarter. About the end of March several failures of more or less importance took place in the iron trade. A very uneasy feeling again became prevalent, and this feeling was intensified during the months of April and May by the conviction that the strikes in the iron districts of South Wales and elsewhere could not but have a very disastrous effect. In addition to this there were persistent rumours that matters were not quite right with some of the India and China houses, and the failure of one or two small firms at this time gave colour to the surmises. Difficulties were looming everywhere indeed. It mattered not to what part

of the world the eye was turned, firms connected with each were freely talked about. And to aggravate matters, a small concern in London, called the City and County Bank, stopped payment on the 18th of May. This failure was of no direct importance to any but those immediately concerned, but it helped to fan the flame of distrust and anxiety which was already burning, and intensified the serious aspect of commercial affairs at the time.

Two or three days later most serious rumours were circulated in the City respecting the position of a very large iron company, but as the day passed over without any disaster, and as it was said they had been tided over their difficulties, the commercial public breathed more freely, and hoped that all immediate danger was over. This hope was, however, doomed to disappointment, for within a week from this time the company pointed at—the Aberdare Iron Company—failed, with liabilities amounting to over a million sterling. This failure was necessarily and quickly succeeded by the stoppage of two kindred concerns, the Plymouth Iron Company and Fothergill, Hankey, and Co., the latter also with liabilities of over a million; and of Sanderson and Co., the bill-brokers, who held a very large amount of the paper of these failed firms, with liabilities of about seven millions; and of a number of smaller firms, who, it transpired, had been simple drawing posts of the Aberdare Company, and who, having nothing to lose, had indulged in the reprehensible practice of accepting the bills of the company, to enable the latter to "raise the wind," for a very small commission. This batch of failures had not so evil an effect as might have been supposed, for the liabilities were almost entirely in the shape of bills of exchange which had found their way, through Sanderson and Co. and others, into the portfolios of banks which were

well able to sustain the loss; and they did not touch the pockets of the general public to any great extent.

The immediate cause of the stoppage of the Aberdare Iron Company was no doubt the strike of the company's men, in conjunction with the strikes of the men connected with the other iron concerns in South Wales. It had, however, been suspected many months before that the company had been raising the wind by accommodation bills, and when the strike occurred, and when consequently no iron was turned out to bring cash into the till, the volume of accommodation bills increased, and the company's credit was in the same ratio decreased, and hence the collapse.

To say nothing of the direct evils of strikes, it may be worth while to record that since the strike in South Wales on this occasion began, there were returned through the Clearing-House upwards of two millions of pounds of the acceptances of small traders and others in the provinces; and from this circumstance, among others, observers came to the conclusion that we were on the eve of a large commercial panic, which, happily in a modified form, actually took place a week or two later.

The immediate cause of the panic—or as it may be more correctly described, the crisis—which followed, was the announcement on the afternoon of the 15th of June of the failure of Alexander Collie and Co., East India merchants of Manchester and London, with estimated liabilities to the extent of £3,000,000. Although this firm had long been suspected by some, the announcement came unexpectedly upon the market and revived the fears which for the previous week or two had been slumbering. And matters were made worse when, during the following week, about thirty firms, who had been simply drawing posts of Collie's, and had accepted merely for the sake of a commission,

failed. And the parallel between the Aberdare Company and Collie did not end here, for like Sanderson and Co. in the former case, Young, Borthwick, and Co., bill-brokers, in the latter, were largely "planted" with the accommodation bills, and being unable to take them up out of the hands of the bankers and others with whom they had discounted them, or lodged them as security for loans, they were obliged to suspend also, with liabilities of two millions and a half.

In this case, as in the former, the losses fell chiefly upon the banks, and the general public were not much hurt. While the crisis lasted, it was very sharp and severe, and was, of course, availed of by those unprincipled persons who are always on the outlook during commercial troubles for opportunities of damaging the best conducted and soundest concerns with the view of profiting by their contemporaneous Stock Exchange operations. The consequence was that rumours detrimental to some of the London and Indian banks were freely and industriously circulated, and but for the abundance of money at the time there is no telling to what extent the crisis might have gone.

Fortunately, however, this crisis differed from the panic of 1866, inasmuch as at this time money was superabundant and the Bank rate only $3\frac{1}{2}$, and good firms had no difficulty whatever in obtaining all the accommodation they wanted.

With the smaller firms the case was widely different, for bankers and brokers, in consequence of the perpetual state of fear in which they had been kept by the constantly recurring failures almost since the beginning of the year, distrusted those firms in whom they had not the most perfect faith, and refused them the accommodation which they had been accustomed to. Hence failures amongst the

second-rate traders continued for some time, although the acute stage of the crisis may be said to have been over within a week of Collie's collapse. Thanks, however, to the plethora of money, the somewhat exaggerated fear in the minds of bankers and others gave place to a desire to make what profit they could out of their means, and they soon began to discount again, and thus calmed down to a great extent the fear which had been previously existing.

The competition for bills had the usual effect of still further lowering the rates, and the Bank of England, in order to participate in the discount business at all, were obliged to follow the market and lower their rate on the 8th July to 3 per cent., and still further on the 29th July and 12th August to $2\frac{1}{2}$ and 2 per cent. respectively. The lowering of the Bank rate was only a sign of the superabundance of money, and after all it did not help them to any particular share in such small volume of discount business as was being done.

At this time, also, a large number of foreign States and limited companies were in very bad odour, and investors sold out their holdings in them and placed their money with their bankers to await better times. This also aggravated the position of matters. The result of all these combined causes was that money during August and September was a perfect drug in the market, and at times was quite unlendable. The best rate that could be got by bankers for loans, when they could lend at all, for a month, was 1 per cent. The Clearing-House return for the middle week of August was ten millions less than the corresponding week of the previous year, thus showing the stagnation of trade and the consequent low value of money.

During October, however, the usual drain of gold to the country, and Scotland, and America, coupled with a somewhat unusual drain to Germany for coinage purposes, and

to other parts of the Continent, and to South America, depleted the stock of that metal by three and a half millions, and to that extent relieved the London market. Hence rates for loans and discounts began to improve, and with this improvement credit began to revive, and a final departure was made from the period of extreme monetary ease and chronic distrust which had been lying so long over the banking, financial, and commercial world.

Such is a short history of the year 1875—a year which may be most accurately described as being marked by a *series* of crises, which, constantly recurring, paralyzed credit from its very beginning, and which reached their climax with the failure of Collie in the month of June, a failure which, coming as the last shock to an already tottering fabric, well-nigh, for a time, swept the very name of "credit" out of existence.

The crisis of 1878 was unlike that of 1875, inasmuch as that of 1875 extended over a prolonged period and had its culminating point at a given time; while that of 1878 was comparatively short, but at the same time sharp and decided.

The intervening years of 1876-77, and the greater part of 1878 passed over without any noteworthy incidents except the political ones of the Russo-Turkish war—which lasted from April, 1877, till March, 1878—and our own troubles in Afghanistan, which came to a head in September, 1878. The troubles on the Continent of course paralyzed trade somewhat and retarded the recovery from the depression which had been existing since 1873. At the same time, considerable progress towards recovery had been made, and the comparative quietude of these years helped materially to increase the chances of a speedy and complete revival. Numerous failures, it is true, took place during this period, but they were chiefly of the weaker class of

traders, and arose from contracted business and insufficient profit, and had no important bearing on the monetary world. As the event proved, however, the expectations formed of a trade revival were once more doomed to disappointment by the catastrophes which took place in the autumn of 1878.

At this period occurred the crisis of 1878, an event which had for its initial cause the failure of the City of Glasgow Bank, on the 2nd of October. Although this failure, when it did take place, was not an *entire* surprise in well-informed circles, it came upon the general public like a thunderbolt, and once more shook the fabric of credit to its very foundations.

We have said that the failure of this bank was not an entire surprise in well-informed quarters, and it may be well to explain, that, particularly in London, it had always been looked upon with some degree of suspicion since its temporary stoppage in 1857. And its credit was in no degree improved when, during the last eight or nine years of its existence, it was suspected that instead of having made a departure from the reckless management which brought it into its former difficulties, it still continued in the same evil courses. The point upon which the bank seemed to lay itself open to remark during that period was the free way in which it used its credit on acceptances. It was noticed that its acceptances under credits issued to Smith, Fleming, and Co., and others, were apparently very much larger than the businesses of these firms would legitimately require; and the soundness of this suspicion has, of course, been since proved by the revelations of the liquidators.

But although there was this suspicion in certain minds thus early, it cannot be said that the bank was in any general discredit till about the beginning of 1878. On the 1st

of March, Willis, Percival and Co., bankers in Lombard Street, having lost a large sum of money by a Greek firm, failed, and this circumstance tended to turn the attention of holders of bills to all financial institutions not of the first water. Chief amongst these was the City of Glasgow Bank, whose acceptances, at this time particularly, were being pressed for discount in large quantities upon the London bill market.

It was significant of the discredit into which the bank had fallen at this time that the bill brokers, in discounting its acceptances, generally asked, and readily obtained, an extra quarter or half per cent. over the market rate for other bank bills. This was the beginning of the inevitable end. The distrust henceforth was never for a moment allayed. It rather grew more and more pronounced until the month of September, when it came to a head. The Indian banks being large holders of the acceptances of the City of Glasgow Bank, which had been given under credits in favour of the corresponding houses in India of Smith, Fleming and Co., London, and others, and having found great difficulty in getting rid of such acceptances on the London market, instructed, it is said, their agents in the East to buy no more of that paper. This precipitated the crisis. The authorities of the bank in Glasgow found their credit entirely gone, with the inevitable consequence of a stoppage staring them in the face.

The first definite rumour of the bank being *in extremis* came from the London Stock Exchange, on the 25th of September. Then followed rumours of all descriptions, embracing some to the effect that false gold returns and false balance-sheets, &c., had for long been systematically issued. These rumours also emanated from the Stock Exchange.

It was regarded at the time as being somewhat singular that certain members of the Stock Exchange should have

such an intimate and exclusive knowledge of the private affairs of the bank, but the subsequent revelations rendered it less remarkable that the difficulties of the concern should have been first allowed to reach such a quarter.

When the rumours referred to first reached the ears of the other Scotch bankers they were greatly discredited, for, although the City Bank had for long been treated as a kind of pariah in Scotland, because of the imprudent business they were suspected of doing, it was believed that the directors were honourable men, and that the balance sheets were true. Assuming that the latter gave a true statement of the affairs of the bank, the other Scotch banks could see in them no corroboration of the rumours, and hence did not credit them. And so well was the secret kept, except in interested quarters, that it was not until the City Bank directors themselves came, during the last day or two of September, to invoke the aid of the other banks, that the latter could bring themselves to believe in the truth of the reports.

Following upon this the other banks deputed Mr. George Auldjo Jamieson, accountant, in Edinburgh, to examine and report upon the state of the finances of the City Bank, with the view of giving that bank the necessary aid should such a course seem to be warranted and afford any hope of helping it through its difficulties. A cursory examination of the books showed Mr. Jamieson that no less a sum than nearly *six millions of pounds* had been lent to *four* firms, and that the bank's affairs were in such a hopeless condition that to advise that aid should be given was quite out of the question. The other banks, therefore, declined to interfere, and accordingly the City of Glasgow Bank stopped payment on Wednesday, the 2nd of October.

In Scotland and London the news was received quietly, coming, as it did, upon minds which had for ten days or

so been prepared for the worst. It was well that the blow did not fall upon minds unprepared for it, for had it come suddenly, like the Collie failure in 1875, a banking panic of unexampled virulence would most probably have been the result. As it was, the short breathing time allowed enabled banks and financial institutions of all kinds to mature such arrangements as should secure themselves in the event of the worst coming, To be forewarned is to be forearmed, and to be forearmed is in a great measure to forestall and minimize the danger. Hence it was that when the blow fell, the public generally received the news with calmness, and forbore to run upon the other banks in any marked degree. It is true that the other two Glasgow banks had to sustain something in the nature of a run, although public distrust never, at any period during the crisis, amounted to more than might have been expected in the circumstances. The association of ideas in the public mind suggested the fact that the only two bank failures in Scotland in recent times, those of the Western Bank and the City Bank, were both Glasgow banks; hence the public, very unreasonably, looked somewhat askance at the two remaining Glasgow banks; but these institutions, as was to be expected from their prudent and able management, had no difficulty in meeting all the demands upon them, and speedily any distrust which may have arisen passed away.

When the City of Glasgow Bank stopped payment, the other Scotch banks immediately took steps to announce that the notes of that bank would be accepted as usual. And in addition to this they also speedily arranged a plan whereby immediate relief was given to such depositors of the failed bank as were hampered by the lock-up of their money, by granting them advances on the security of their deposits. And no doubt it was due to such action that a

panic, which might well in the circumstances have been considered inevitable in Scotland, was averted,

Directly the directors determined to stop payment they gave instructions to a firm of accountants in Glasgow, Messrs. Kerr, Andersons, Muir, and Main, and to a firm of solicitors there, Messrs. McGrigor, Donald, and Co., to prepare a balance sheet of the bank, as on the 1st October, 1878, the day preceding the stoppage, to be submitted to the shareholders on the earliest possible day. This investigation necessarily occupied a considerable time, and it was not until the 19th of the month that the investigators' report was in the hands of the shareholders. Then for the first time the public generally became aware of the appalling nature of the catastrophe, when it was seen that there was a total loss of £6,190,983, and that, to hide this deficiency, the balance sheets had been systematically falsified for years.

In addition to the money loss, the revelations made in the report with respect to the book-keeping, and other matters, were of a most astounding character, and showed mismanagement so gross and criminal as to be almost incredible. Indeed, so gross was the falsification that, immediately on the issue of the investigators' report on the 19th, warrants were issued for the apprehension of the directors and manager on a charge of fraud, and put in force the same evening.

The investigators' report was issued on the 19th of October, and on the 22nd a meeting of the shareholders was held to consider it, when a voluntary liquidation was resolved upon. The liquidators appointed were Mr. William Anderson, one of the investigators; Mr. Jamieson, who made the preliminary investigation on behalf of the other Scotch banks; Mr. John Cameron, formerly secretary of the Clydesdale Bank; and Mr. Jamieson's partner, Mr.

James Haldane, of the firm of Messrs. Lindsay, Jamieson, and Haldane, chartered accountants, Edinburgh.

These gentlemen immediately addressed themselves to the work of their office. The first necessary step was to settle the list of shareholders, which was accomplished by the 7th of the following month.

At the period of the stoppage, according to the original list as settled by the liquidators, there appear to have been 1,819 shareholders of all kinds. Of these, 1,093 held in their own right; 484 as trustees; 100 as joint holders, life-renters, &c.; 108 were representative of stock held by wives, &c.; while the remainder held in some other representative capacity.

It is not to be supposed that so large a body would quietly submit to have their names placed on the list of contributories without a struggle, and efforts were made by many to get rid of their responsibility. Petitions to the Court of Session were presented by 209 persons for rectification of the list of contributories which the liquidators were obliged to resist. In this they were successful in 139 cases, partly successful in 26 cases; and unsuccessful in 44 cases. These petitions were presented chiefly on the ground that the petitioners had been induced to purchase stock on the fraudulent representations of the bank; or that prior to the stoppage the stock held by them had been sold to the bank; or that they had disposed of their holdings before the 22nd of October, when the shareholders passed the formal resolution to go into liquidation, although they made no pretence that they had sold before the date of the actual stoppage on the 2nd of October.

In addition to those cases of petitions for rectification, the liquidators were parties to other 203 cases before the law courts. Eighty-four of these were actions against the liquidators, 68 of which they resisted successfully, and

8 unsuccessfully, and were partially successful with respect to the remainder. Twenty-five actions were raised by the liquidators. The remaining 94 cases to which the liquidators were parties consisted of applications to the court for sanction of arrangements made by them with certain debtors, creditors, contributories, &c. Amongst these may be mentioned, by way of example, the compromises effected with the trustees of James Morton and Co., Matthew Buchanan and Co., Glen, Walker and Co., Potter, Wilson and Co., J. Innes, Wright and Co., W. Nicol and Co., of Bombay, all large debtors to the bank, whereby their estates were made effectual for the benefit of the bank to the value of nearly a million pounds, and litigation was thus avoided. The liquidators also entered into an agreement with the trustee of Smith, Fleming, and Co.'s estate, whereby, by paying a dividend of 2*s.* 1*d.* per £ on the claims (amounting to about £180,000) of all creditors other than the bank, they secured all the assets.

Among the special actions to which the liquidators were parties may be mentioned that of "Murdoch's Trustees," which was taken as a test case to try the question of the individual liability of trustees; and that of the Caledonian Bank, for the winding-up of which the liquidators petitioned. With regard to Murdoch's trustees, they determined, notwithstanding former clear decisions on the point, to try the question of the personal liability of trustees afresh. The result was that judgment was given by the first division of the Court of Session unanimously in favour of the liquidators on the 20th December, 1878, and the principle of the personal liability of trustees was thereby affirmed. Against this judgment Murdoch's trustees appealed to the House of Lords, who, on the 7th of April following, dismissed the appeal, and confirmed the judgment of the Court of Session.

The petition for the winding-up of the Caledonian Bank was presented by the liquidators in December, 1878, under these circumstances: the Caledonian Bank having taken £400 stock of the City of Glasgow Bank, as security for an advance, from one of its customers, and having registered the same in its own name, became thereby a shareholder of the City of Glasgow Bank, and responsible for its debts. This fact having become a matter of notoriety, the shareholders of the Caledonian Bank, fearful of the consequences, began to sell their shares, or transfer them into the names of men of straw. The liquidators of the Glasgow Bank thereupon took steps to stop this process by closing the register of the Inverness Bank, which was effected by the petition for the winding-up of the latter, which was the only means then possible for effecting that object. The Caledonian Bank then stopped payment, but subsequently so amended its constitution as to prevent any transfer of shares without the approval of the directors; and having thus effected the chief object of the petition of the liquidators of the Glasgow Bank, the petition was withdrawn on the 28th of June, 1879, and the Caledonian Bank forthwith resumed business.

The first duty of the liquidators, viz., the settlement of the list of shareholders, having been effected, their second step was the call upon these unfortunate individuals for £500 per every £100 of stock held. This call was made on the 13th November, and was payable in two equal instalments on the 23rd of the following month and the 24th of the following February. The object of the liquidators in allowing so long a time for the payment of the second instalment was to enable shareholders to realize their securities without unduly forcing them upon the markets, and so, to a great extent, sacrificing them.

The nominal amount of the first call was about £4,200,000,

and by the end of the second official year of the liquidation—22nd October, 1880—it had realized £2,409,066.

The first call necessarily swept away many hundreds of the original shareholders, and made the obligations of the remainder all the more onerous.

By March, 1879, the liquidators were ready to make the second call, having gained considerable experience in the realization of the first, and having been able to form a more accurate judgment as to the capabilities of the remaining contributories. But they deemed it expedient, before making the second call, to await the issue of the appeal to the House of Lords by Murdoch's trustees already alluded to.

On the 7th of April judgment was given in this case against the appellants, as was fully expected; and on the 8th the liquidators made their second call, amounting to £2,250 per cent., payable on the 22nd of the same month. The nominal amount of this call upon the stock held by the then solvent contributories was £7,814,000, and it actually realized by the end of the second year of the liquidation the sum of £3,405,452.

The two calls having thus realized the large sum of £5,814,000, or nearly as much as covered the estimated total loss, no further call was deemed necessary. With this sum, together with the sum of £5,851,657, realized out of the good assets of the bank during the two years, the liquidators were enabled to pay dividends to the creditors as follows, viz.:

6*s.* 8*d.*	in the £	on 28th February, 1879.
3*s.* 4*d.*	,,	20th June, 1879.
3*s.* 4*d.*	,,	17th October, 1879.
1*s.* 8*d.*	,,	25th February, 1880.
1*s.* 0*d.*	,,	23rd March, 1880.
1*s.* 0*d.*	,,	9th July, 1880.
17*s.* 0*d.*		

In addition to this the liquidators were enabled towards the end of 1879, by the aid of an advance from the other Scotch banks, to offer payment in full to such of the creditors as chose to forego the interest on the unpaid balance of their claims. This offer was taken advantage of to a very large extent; and it can be said that practically every creditor was paid his 20*s.* in the £ within a year and a quarter of the failure of the bank. The creditors who did not take advantage of this offer were few in number, and their claims were comparatively small in amount.

The all but universal ruin of the shareholders, and the searching character of the calls made by the liquidators, will be evident when it is mentioned that, of the original capital of one million pounds stock, the holders of only £88,722 were left solvent after the payment of the second call. This solvent stock was held by 129 individual shareholders, and by 124 trustees, out of the original number of 1,819 shareholders of all kinds. Of the million of capital, however, £160,313 was held by the bank itself, and by several bankrupt debtors to the bank from whose estates there was not a penny forthcoming to meet the calls. There was thus only £839,687 of stock in the hands of the public; and it will be evident, therefore, that holders of stock to the amount of £750,965 were absolutely ruined.

From the foregoing facts an idea can be formed of the immense labour involved in the liquidation. We have seen that the liquidators were parties to over 400 cases in the law courts, but that must give but a faint idea of their labours, as it is evident they must, in addition, have made arrangements with some 1,500 of the shareholders who failed to pay both the calls, and surrendered their stock. The course the liquidators followed in such cases was to require from the surrendering shareholders a statement of their affairs, with a declaration as to its truth before a

justice of the peace. These statements were then carefully examined and tested by the liquidators, and on their bases an arrangement was come to, which arrangement was then submitted to a committee of shareholders for approval, and thereafter to the Court of Session for its sanction.

It may be interesting to note as bearing upon the question of the stability of bank shareholders, that two-thirds of the surrendered stock was exhausted by the first call of £500 per cent.

We have given but a mere outline of the history of this disaster, a disaster which for its magnitude, as well as for the grossness of its surroundings, is unprecedented in the history of banking. In Scotland it was felt to be a national disgrace, but it had the effect of setting forth the national character in some of its best lights. There were few bright spots on the face of the whole wretched event, but such as there were ought in justice to be mentioned.

It ought to be mentioned to the credit of the shareholders, for instance, that at their meeting on the 22nd of October to receive the investigators' report, they did not enter upon unmeasured denunciations of the directors for their cruelty in leading them into such a position. By the day of the meeting the report had been in their hands for three days, and they had therefore ample time to consider the hopelessness of their position and the enormous deficit they would have to make good. Strong language, therefore, would have been excusable, but instead of resorting to that they one and all faced their difficulties in a calm, manly, courageous manner, and expressed their determination to keep faith with their creditors to their uttermost farthing. How well they kept their pledge is well known; but unfortunately in the result, in many cases, absolute penury was the least evil that befell them, for some, in addition to this, lost their reason, and all that made life

worth having, thereby laying an immeasurable load of responsibility upon all those who had a hand, directly or indirectly, in bringing them to such a pass.

It ought also to be mentioned to the credit of the Court of Session and the liquidators, that, animated by the prevailing sentiment, they put their shoulders to the wheel in such earnest as to dispose of the large number of cases already mentioned in a few months, thereby rendering it possible to pay practically all the creditors of the bank in full within a year and a quarter from the date of the stoppage.

It ought further to be mentioned to the credit of the general public, that immediately it was seen how very ruinous the disaster would prove, a subscription was opened for the relief of ruined shareholders, which in a month or two reached the large sum of nearly £400,000, which was almost entirely subscribed in Scotland alone.

We have already said that immediately on the appearance of the investigators' report, on the 19th of October, warrants were issued for the apprehension of the directors and manager, on a charge of fraud. They were accordingly all apprehended on the same Saturday evening, and on the following Monday were brought before the police court; and a week later, after being further charged with theft, were formally committed for trial; the trial, however, not taking place till the 20th of the following January.

The first head of indictment charged the panels with issuing false and fraudulent balance sheets during the years 1876, 1877, and 1878. The fabrication of the balance sheets was actually commenced in 1873, but the Crown went no further back than 1876, believing that they could found a charge on the balance sheets of that and the two subsequent years of sufficient gravity to obtain a conviction.

The panels were charged with the issue of false balance sheets, inasmuch as in that of 1876 they *understated* the deposits £1,006,000, the acceptances £973,000, the credit accounts, and other advances £2,698,000, and *overstated* the cash in hand £29,000, government stocks, etc., £753,000, profits £125,000, reserve fund £450,000; in that of 1877 they *understated* the deposits £1,151,000, the circulation £76,000, the acceptances £1,330,000, the bills of exchange, credit accounts, and other advances £3,227,000, the cash in hand £30,000, and *overstated* the government stocks, etc., £751,000, profits £129,000, reserve fund £450,000; and in that of 1878 they *understated* the deposits £941,000, the circulation £89,000, the acceptances £1,393,000, the bills of exchange, credit accounts, and other advances, £3,520,000, and *overstated* the cash in hand £219,000, the government stocks, &c., £926,000, the profits £125,000, the reserve fund £450,000.

In addition to these specific charges they were also charged under this head of the indictment with treating and publishing as available assets, certain bad debts, to an amount far exceeding the capital of the bank, and with fraudulently representing and publishing that the bank was in a sound and prosperous condition, and capable of paying a certain dividend, and of carrying forward a certain amount to the following year's profit and loss account.

Under the second head of the indictment some of the panels were further charged with breach of trust and embezzlement, inasmuch as each of them did in breach of his trust and duty as a director of the bank embezzle and appropriate to his own use, or to the use of the firm with which he was connected, certain specified large sums of money ranging in amount from about £30,000 to over £300,000.

The third head of the indictment charged all the directors with theft, inasmuch as they did "wickedly and feloniously steal and theftuously away take" certain bills of exchange which had been left with them by customers for collection and credit of account at maturity, and did instead discount the same and apply the proceeds for the purposes of the bank.

The indictment resolved itself substantially into the three foregoing heads of making and issuing false balance sheets, breach of trust and embezzlement, and theft.

On the discussion of the relevancy of the indictment, the counsel for the prisoners argued that the indictment was altogether bad, inasmuch as the first head was not sufficiently specific, and because it was contradictory and unintelligible; and particularly that the eighth count of the first charge, viz., that bad debts far exceeding the capital of the bank had been treated as good assets, should be struck out, because it did not specify the debts which were bad and irrecoverable.

With regard to the second head, counsel argued that the directors committed no crime in sanctioning advances to themselves, and did nothing that was not quite within their discretion in so doing.

With regard to the third head, they submitted that, in sending the bills to London for discount, the directors, though they might have been guilty of some irregularity in sending them prematurely, were not guilty of theft, inasmuch as they placed the proceeds of the bills to their customers' credit at maturity, and only used the proceeds for the purposes of the bank in the meantime in their discretion as agents for their customers.

As the result of the argument on the relevancy, the Lord Advocate for the Crown withdrew the eighth count of the first head of falsifying the balance sheets, on the ground

that he was not in a position to give the details of the bad debts treated as good assets. And the Lord Justice Clerk disallowing the other objections raised by counsel against the relevancy, the indictment, amended as above, was placed before the jury.

During the course of the trial, however, the Crown found it necessary to abandon the two charges of embezzlement and theft; and the only charge which was ultimately put before the jury for their verdict was that of fraudulently falsifying and issuing the balance sheets.

To enable the reader more clearly to follow the charge which was preferred, we shall here give a copy of the balance sheet of 5th June, 1878, as issued by the directors, together with a *pro forma* balance sheet of the same date, made up for the sake of comparison, after giving effect to the falsifications charged in the indictment. And, as further illustrative of the falsifications, we shall also give a copy of the balance sheet of the bank on 1st October, as made up by the investigators.

I. ABSTRACT BALANCE SHEET, as at 5th June, 1878.

As issued by the Directors.

Liabilities.			Assets.		
I. Deposits at the Head Office and Branches, and Balances at the Credit of Banking Correspondents		£8,102,001 0 4	I. Bills of Exchange, Local and Country Bills, Credit Accounts, and other Advances upon Security		£8,484,466 9 2
II. Bank Notes in Circulation in Scotland and the Isle of Man		710,252 0 0	II. Advances on Heritable Property, and Value of Bank Buildings, and Furniture at Head Office and Branches		265,324 9 0
III. Drafts Outstanding, due, or with a currency not exceeding twenty-one days, and Drafts accepted by the Bank and its London Agents on account of Home and Foreign Constituents		1,488,244 18 6	III. Cash on hand, viz., Gold and Silver Coin and Notes of other Banks at Head Office and Branches.	845,963 1 0	
Liabilities to the Public		£10,300,497 18 10	IV. Government Stocks, Exchequer Bills, Railway and other Stocks and Debentures, and Balances in hands of Banking Correspondents	£2,296,839 12 6	
IV. Capital Account	£1,000,000 0 0				3,142,802 13 6
V. Reserve Fund	450,000 0 0				
VI. Profit and Loss Liabilities to the Partners	142,095 12 10	1,592,095 12 10			
		£11,892,593 11 8			£11,892,593 11 8

II. PRO FORMA ABSTRACT BALANCE SHEET, AS AT 5TH JUNE, 1878.

Made up after giving effect to the falsifications charged in the Indictment.

LIABILITIES.				ASSETS.			
I. Deposits at the Head Office and Branches, and Balances at the Credit of Banking Correspondents		£9,043,285	13 9	I. Bills of Exchange, Local and Country Bills, Credit Accounts, and other Advances upon Security	£12,005,380	0 10	
II. Bank Notes in Circulation in Scotland and the Isle of Man		799,283	0 0	II. Advances on Heritable Property, and Value of Bank Buildings and Furniture at Head Office and Branches	265,324	9 0	
III. Drafts Outstanding, due, or with a Currency not exceeding twenty-one days, and Drafts accepted by the Bank and its London Agents on account of Home and Foreign Constituents		2,881,252	18 6	III. Cash on hand, viz., Gold and Silver Coin and Notes of other Banks at Head Office and Branches	626,440	15 2	
Liabilities to the Public		£12,723,821	12 3	IV. Government Stocks, Exchequer Bills, Railway and other Stocks and Debentures, and Balances in hands of Banking Correspondents	1,370,075	12 6	
IV. Capital Account	£1,000,000 0 0						
V. Reserve Fund							
VI. Profit and Loss Liabilities to the Partners	16,220 3 10	1,016,220	3 10				
		£13,740,041	16 1				
Discrepancy between this and the Cr. side		527,179	1 5				
		£14,267,220	17 6			£14,267,220	17 6

The above discrepancy can be largely accounted for by the £450,000 of Reserve Fund, which the indictment charged the directors with having raised by means of interest charged on advances, but never actually received.

III. ABSTRACT BALANCE SHEET, AS AT 1ST OCTOBER, 1878. (*As issued by the Investigators.*)

LIABILITIES.				ASSETS.			
I. Deposits at the Head Office and Branches, and Balances at the Credit of Banking Correspondents	£8,798,788	13	4	I. Bills of Exchange, Local and Country Bills, Credit Accounts, and other Advances upon Security	£5,996,792	3	0
II. Bank Notes in Circulation in Scotland and the Isle of Man	863,403	0	0	II. Advances on Heritable Property, and Value of Bank Buildings and Furniture at Head Office and Branches	211,074	10	8
III. Drafts Outstanding, due, or with a currency not exceeding twenty-one days, and Drafts accepted by the Bank and its London Agents on account of Home and Foreign Constituents	2,742,105	14	11	III. Cash on hand, viz., Gold and Silver Coin and Notes of other Banks at Head Office and Branches	£418,363	16	4
				IV. Government Stocks, Exchequer Bills, Railway and other Stocks and Debentures, and Balances in hands of Banking Correspondents	587,083	7	0
					1,005,447	3	4
				Balance, being Loss	5,190,983	11	3
	£12,404,297	8	3		£12,404,297	8	3

NOTE.—To the above Balance of Loss £5,190,983 11 3
Falls to be added the Capital 1,000,000 0 0

Making the total Loss £6,190,983 11 3

During the examination of Mr. Jamieson it was elicited that the bank had lent the enormous sum of nearly six millions to five different firms, all of whom were insolvent; and the inference was that to hide these bad debts was the motive of the directors in the fabrication of the balance-sheets.

The following are the names and amounts of these bad debts, viz.:

James Morton, as an individual, and his firm of James Morton and Co., Glasgow . .	£2,173,000
Smith, Fleming, and Co., London . .	1,968,000
James Nicol Fleming, Glasgow . . .	1,238,000
Lewis Potter as an individual, and his firm of Potter, Wilson, and Co., Glasgow .	108,000
J. Innes, Wright, and Co., Glasgow . .	485,000
	£5,972,000

Of the above, Potter and Wright only were directors. Nicol Fleming was a former director, and no doubt was responsible for much that was done, for, on the apprehension of his quondam colleagues, he left the country. Morton was not a director, at least not ostensibly; but this person seems to have been on intimate terms with the members of the board, and to have acted on occasions as a general adviser.

Granting the motive for falsifying the balance-sheets, in order to hide the enormous indebtedness of the five insolvent firms already named, on turning to the first and second of the balance-sheets already given, and comparing them together, it will be readily seen how well that issued by the bank was calculated to deceive, and to inspire the public with unmerited confidence.

There does not seem to have been very much method dis-

played in manipulating the accounts. The primary object seems to have been to arbitrarily alter any figures, which would, when effected, present the best appearance to the public eye, and most nearly correspond relatively to the figures of the other banks' balance-sheets.

It would have damaged their credit irretrievably, for instance, if they had issued a true balance-sheet, such as No. 2 above, which shows cash in hand and Government Stocks, &c., of £1,996,000 only, wherewith to meet liabilities to the public of £12,723,000, the cash in hand, &c., thus showing a proportion to liabilities of about 15 per cent. only. Up till a few years ago it was an old tradition in the banking world that the proper proportion of cash in hand, &c., to liabilities should be about one-third, or 33 per cent. Hence we find the City of Glasgow Bank in its manipulated statement (see No. 1) showing a proportion of slightly over 30 per cent.

The figures seem to have been altered chiefly to meet this requirement, but with the view at the same time of making as good an appearance in the various items as possible, so as to bolster up their credit in London and elsewhere, as long as they could. For instance, the *under-statement* of their acceptances to the extent of £1,393,000 was evidently done to hoodwink the London bill market upon which the great bulk of their acceptances were placed, for they would be perfectly well aware that the London market would not tolerate for a moment such an amount as the true amount, especially as it was apparent that the acceptances were given to such questionable firms as Smith, Fleming, and Co., and Morton, and their connections.

Then the *over-statement* of the cash in hand and Government Stocks, &c., to the extent of £1,145,000 was no doubt made to assure the depositors chiefly and other creditors of the bank.

There seems to have been no pressing necessity to understate the deposits on the Dr. side, and the bills of exchange, &c. on the Cr. side, except that by the under-statement of the deposits (and the consequent under-statement of the bills of exchange, to balance) the directors were enabled to show a larger proportion of cash in hand.

It will be understood that the foregoing remarks, although made with reference to the 1878 balance-sheet only, are equally applicable to those of 1876 and 1877. Indeed, we fear they may be applicable to years anterior to these, for it seems as if the first false step were made in 1873, when three advances, amounting to £751,000 in the aggregate, were deliberately deducted from credit accounts under No. 1 head of the assets, and added to Government Stocks; and when a sum of £973,000 was deliberately deducted from the acceptances current, so as to make it appear that the bank were under acceptance to that extent less than they actually were.

Another falsification which was made, and which was greatly calculated to deceive the public, was in the weekly return to the Commissioners of Stamps and Taxes of the gold and silver coin held against the circulation. This return from the week ending 5th January, 1878, till the stoppage of the bank, was regularly over-stated in varying amounts from £20,000 to £293,000.

Proof was led in support of the various charges in the indictment, and pretty conclusive evidence as to the falsification was given.

When the case for the prosecution was closed, high-class witnesses as to character were called for the prisoners; but their general defence, brought out chiefly in cross-examination of crown witnesses, was that they did not understand the balance-sheets; that they were entitled to rely on the officials of the bank; and that they placed the most entire

confidence in every statement and figure placed before them. And in one case the prisoner pleaded that the balance-sheets in question were made up when he was absent from Scotland.

The summing up of the Lord Justice Clerk placed the innumerable and intricate questions involved before the jury in a wonderfully lucid way. He pointed out that a director is not a professional banker, and that he is entitled to rely upon the officials so long as he has no reason to distrust them; but that where special circumstances arise to bring special interests under his notice there is imposed upon him an obligation for inquiry, and, if necessary, for action. He further pointed out that there is one thing a director is bound to have, and that is, in every case, honesty, and that neither the interests of the shareholders, nor the chance of recovering a bad debt, nor any of those other circumstances which, when he is in the midst of a difficulty, almost overwhelm him, justify, excuse, or palliate him in making a deliberate statement which he knows to be false.

Following up these general principles, he proceeded to show from the evidence led, that the director Potter, and the manager Stronach, were directly responsible for the falsifications on the balance-sheets, and that the other directors need not have been cognizant of them at all. After remarking upon the points favourable to the prisoners, such as their having derived no corrupt personal interest from their connection with the bank, and having taken no advances but such as from their commercial standing they were, generally speaking, legitimately entitled to, and their having stuck to their shares to the last, and paid the calls thereon till they were ruined, he left the case in the hands of the jury.

The jury, after an absence of two hours, brought in a

verdict of guilty against Potter and Stronach of concocting and fabricating false and fictitious balance-sheets, and thereafter of using and uttering the same; and against the other directors of "using and uttering" only. Sentence was pronounced next day of eighteen months' imprisonment against Potter and Stronach, and eight months' against the others. This was in addition to the three months' imprisonment which all the prisoners (with the exception of Stewart, who was released on bail of £15,000) endured previous to their trial.

As illustrative of the responsibilities of persons holding a fiduciary position acting *ultra vires*, it may be worth mentioning that the liquidators obtained a decree against all the directors for the sum of £6,231,000, for which amount they subsequently ranked on each of their sequestrated estates. This amount was made up as follows:

Loss directly sustained by advances to nine particular debtors	£5,200,000
Advances to shareholders on security of bank's stock made valueless by the loss incurred under the first item . . .	253,000
Loss incurred from bank's stock held by the bank itself	387,000
Loss incurred through investments in bonds and stocks of the Western Union Railroad Company and Racine Warehouse and Dock Company	391,000
	£6,231,000

We have entered thus fully into the circumstances and surroundings of the failure of the City of Glasgow Bank as the event is one which will unquestionably prove to be a distinct landmark in banking history, because of the

diversity of the issues involved and the magnitude of the losses. It stands out as the most gigantic failure which has ever taken place in the banking world, and as such we think it has demanded something more than a cursory notice.

To exhaust the subject, however, it will be necessary to examine the causes which led to the disaster; and we shall earnestly hope that the result of such examination may be, that in the future it will prove a beacon whereby others may steer clear of the rocks whereon the City of Glasgow Bank became a wreck.

Whenever a bank fails it is almost invariably found that the result has been brought about by some large involvements in the shape of advances on dead and unmarketable securities. In a previous section of this work, as we have already seen, the Western Bank of Scotland was brought down chiefly by having locked up over a million and a half of money by advances to four insolvent houses. The Borough Bank of Liverpool was brought down in the same way; and so was the Northumberland and Durham District Bank by a large lock-up with the Derwent Iron Company.

It has been over and over again enforced in the preceding pages that the most dangerous of all loans are those which are made against unmarketable securities, such as mills, iron-works, coal-mines, landed property, &c., and which from their nature are not likely to be repaid at maturity, but are likely to be asked to be renewed again and again for an indefinite period. Then a time of tightness in the money market comes, when it is necessary to realize every penny; and when this cannot be done, too often the bank and the debtor go down together. It has also been enforced that the granting of such loans is most often due to a want of decision and firmness on the part of

the banker. The latter is perhaps assailed by an influential customer, who so presses his proposal for such a loan upon him, that, being unable to answer with an emphatic "No" when necessary, he allows himself, in a moment of weakness, to be persuaded to agree, and the mischief is then, in the majority of cases, done. For it is easier to get into a large loan than it is to get out of it, and when a loss is once made it requires a great amount of strength of mind to look it in the face and submit to it. The temptation is to throw good money after bad on the off-chance that things will all come right some day. When we say this, of course we de not mean to imply that in every case it is inexpedient to "nurse an account." This is frequently done with the best results; but the determination to attempt it must be governed by circumstances, and in view of the *fact*, as experience has proved, that it is always a dangerous movement, and that the chances are always very much against the success of the result.

To the causes above alluded to, the failure of the City of Glasgow Bank was largely due. We have seen who were its principal debtors, and it only remains to say that these gigantic totals were built up by degrees, and in the hope that the additional supplies would enable the debtors to ultimately wipe off the whole. As an example let us take Smith, Fleming, and Co.'s account. It transpired at the trial that that firm were indebted to the bank in 1870 to the extent of £150,000 only, which sum was entirely covered by securities. But in consequence of a serious loss by their Liverpool correspondents, Nicol, Duckworth, and Co., about that time, they determined to stop payment. In an evil hour, however, both for themselves and the bank, they communicated their intention to the latter, who, not liking the prospect of a *possible* loss, pressed them to go on, and offered them further help.

This is an instance—not, perhaps, of the *principle* of nursing an account, but of the foolishness of nursing such an account in the way they did. Granting the propriety at this stage of carrying them on in the hope of setting them on their feet again (for it must be remembered that Smith, Fleming, and Co. had an enormous commission business which brought them in nearly £100,000 per annum), it altered the matter altogether when this could only be done at the cost of advancing them other £500,000. Unfortunately the bank did this, and thereafter they were compelled from time to time for years to add to their advances, until at the date of the stoppage they amounted to nearly two millions. The securities the bank took against this debt were of the most heterogeneous description, and embraced tea-garden property, and shares in steam, telegraph, oil, cotton, and tool-factory companies, besides debts of several failed firms. It is obvious how unsaleable many of these securities were, and consequently how exceedingly dangerous it must have been to have advanced against them.

The debts of the other large debtors were built up in much the same way, except that in their cases the debts were already in 1870 immeasurably beyond their legitimate requirements; showing that the business of the bank was utterly rotten many years before it was ever suspected. The securities taken for these debts were even less of a proper banking description than those taken from Smith, Fleming, and Co., and consisted chiefly of property in New Zealand and Australia, shares in the New Zealand and Australian Land Company, liens upon wool, &c., all thoroughly unmarketable.

In addition to holding these securities for money advanced, it will be scarcely credible that the bank also actually purchased land in New South Wales, Queens-

land, and New Zealand, as investments. They deliberately minuted resolutions in 1876 and 1877, authorizing a sum of half a million to be spent in this way. This they did in the expectation that they would thus recoup themselves the large loss which had already accrued on J. Nicol Fleming's debt, and they based their expectation on the calculation that they could finance the purchases at a cost of 6 per cent., and that the investment would bring them in 16 per cent.

In this way, in addition to their own absolute holding of land, the bank were interested, directly and indirectly, in the New Zealand and Australian Land Company, to the extent of nearly a million and a half, out of a total capital of two and a half millions.

But to go back to the events which took place immediately after the stoppage of the bank on the 2nd of October. We have shown the effects that followed the event in Scotland. In London, the centre of the monetary world, and in the country generally, the effects were far-reaching and serious, although not generally disastrous.

One of the first effects of the shock to credit was seen in the eagerness with which all the banks in London and the provinces, and in Scotland, strengthened their hands in case of emergency. During the first three weeks of October the "other deposits" (those of the banks and the general public) of the Bank of England increased over seven millions—thus showing the determination of the banks to keep themselves strong. During the same period also the reserve decreased nearly four millions, thus showing the extent of the preparations of the banks to meet with notes and hard cash any immediate demands upon them. It thus appears that the banks throughout the country strengthened their hands by eleven millions of pounds, and as this sum must have been provided chiefly

by calling up loans, and by declining fresh loans and discounts, it measures to a certain extent the inconvenience imposed upon the general public by the deprivation of their wonted accommodation.

This sum of eleven millions, although large, is by no means so large as might have been expected considering the gravity of the position. The crisis was simply a banking one, brought about by a specific cause, but it was not aggravated by any widespread commercial distrust, or any scarcity of money.

When money was scarce at the end of 1873, when no panic prevailed, we have seen that the bank was charging 9 per cent. for discounts and 12 per cent. for advances; while at the period we are now speaking of, when money was plentiful, the bank was only charging 6 per cent. for discounts—and that only for a few weeks—notwithstanding the existence of a serious crisis which for a time daily threatened to become more serious.

It will easily be understood that one of the first effects of the bank failure, and the consequent contraction of accommodation, would be seen, as was the case, in numerous failures all over the country. It is, however, only right to say that in crises of this kind, well-conducted and sound firms rarely suffer very materially by restriction of accommodation. It is only firms whose credit is of an inferior description, and whose conduct is not all that could be desired, who first feel the effects of periods of discredit. Bankers never refuse legitimate accommodation to the customers in whom they have faith, even in the tightest of times. This accommodation, however, must necessarily be governed by the banker's means, and it happens—and this is one of the many drawbacks of a banking crisis—that the soundest firms are often put to serious inconvenience from the restrictions which their bankers in self-

defence find it necessary to impose. On the other hand, however, a crisis always presents this advantage—and it is, perhaps, the only advantage that it does present—it most certainly searches out the weak and ill-conducted and speculative firms, and roots them out of the field as so many tares, and leaves the ground free for the proper development of healthy concerns which previously had been handicapped by the competition of speculative enterprises, the persons interested in which had everything to gain and nothing to lose.

As a direct consequence of this period of suspicion and restricted accommodation many such firms did fail. On the 11th also, the firm of Heugh, Balfour, and Co., warehousemen, of London and Manchester, in the East India trade, failed, with liabilities of about a million. This firm at one time was of the highest respectability, and in the best of credit, and possessed of large means; but of late years, in consequence of paying out partners, and endeavouring to do the same large business with a diminished capital, it became little more than a mere rotten nut, and had to succumb to the inexorable law which in seasons of pressure stamps out all such invertebrate concerns.

Although the acute stage of the crisis may be said to have terminated by about the end of October, there were too many disquieting rumours afloat after that period to allow it to pass away completely. No sooner did things appear as if they were about to settle down again, than fresh anxiety was raised by adverse reports as to the stability of the West of England Bank in Bristol. These reports were circulated with more or less persistence all through November, and they were accompanied by rumours affecting the position of several other banks, chiefly in the coal and iron districts. Fortunately the *worst* fears were not realized, but unfortunately more than enough were

realized to create the greatest forebodings as to the future, and to throw back the recovery from the crisis, indefinitely.

On the 26th November, the private banking firm of J. and J. Fenton and Sons, of Rochdale, failed with liabilities of about half a million. This failure created little surprise in any quarter, and no excitement except locally. For some time the firm had not been in the highest repute in consequence chiefly of one of the partners carrying on the incongruous business of a speculative stockbroker in addition to banking. This led to persistent withdrawals of deposits, which at last necessitated a stoppage, as the assets were as usual in such unrealizable form as to render it impossible to meet the demand.

The West of England Bank, to which rumour had pointed for weeks, failed on the 9th December with liabilities of about five millions. This failure was brought about by causes somewhat similar to those that brought down the City of Glasgow Bank. This bank was heavily locked up in Fothergill, Hankey and Co., and the Aberdare and Plymouth Iron Companies, whose failures we have already noticed in an early part of this section. It was also heavily locked up in the Bwllfa Colliery Company, and in the firm of J. W. Booker and Co., Limited, of Cardiff.

In other respects the case of this bank was similar to that of the City of Glasgow Bank. At the instance of the Crown the directors of this bank were also indicted for the issue of false balance-sheets, but after a patient trial they were acquitted of the charge.

Having entered so fully into the history and causes of the failure of the Glasgow Bank, it is unnecessary to go into details respecting the Bristol Bank. Suffice it to say, and this we cannot repeat too often, or emphasize too strongly, that it was brought down by much the same

causes—viz., by heavy advances on inconvertible securities. This is another proof, if further proof were needed, of the danger of lending large sums of money to one or two firms —and especially to firms whose prosperity is so peculiarly dependent upon the existence of a general activity in trade.

It is easy to understand how such loans are in the first instance made. Trade is extremely brisk, we shall say, and the wealthy coal-owner, or iron-master, or cotton-manufacturer, not content with the large profits he is making, is tempted by the idea of making them larger. He goes to his banker, and shows him very plainly how he can, by sinking another shaft, or erecting another furnace, or building a new mill, add immensely to his income. The banker, anxious to oblige a good customer, and looking at the proposal in the light of commercial sunshine, when no cloud is to be seen, and when it seems impossible that a storm can come, gives the desired advance. By-and-by trade grows dull on the Continent, or America, or here, or in India, and there is no demand for coal or iron or cotton goods; then the new works which had been gone into to meet the demand during the time of inflation, are no longer needed, and soon are laid aside for the time being. But money has been sunk in these works all the same, and interest on this capital has to be paid, in addition to an expenditure to keep the works from falling into a dilapidated state. But these charges cannot be met out of income in the bad times, and the party has again recourse to his banker, who, to save himself from loss, gives a fresh advance, and so on. Then the dull trade reduces profits, or makes them vanish altogether; then failures take place and create alarm; then alarm brings a crisis in which the bank which has made advances of this kind (and it always becomes perfectly well known locally which

banks are most given to doing this sort of business) is run upon, and being unable in proper time to realize these unmarketable securities, a stoppage is the inevitable consequence.

It is scarcely necessary to say that we do not condemn all loans of this description without exception. Every such proposal should be looked at, and dealt with, entirely on its merits, and without foolish confidence on the one hand or undue timidity on the other. It is one of the most important functions of a bank to develop the resources or the industries of its district by judicious monetary aid. What we condemn is the *abuse* of the system, by the granting of loans of a magnitude such as would imperil the bank in time of panic.

Then during the first day or two of January, 1879, in consequence apparently of the somewhat general banking distrust prevailing, and of the recent death of a partner, whose money, it was feared, would be taken out of the business, a run was made upon the banking firm of Tweedy, Williams, and Co., of Truro, and they were obliged to stop payment on the 4th, with liabilities of about £650,000. This failure seems to have been caused through ill fortune alone, and not through any gross mismanagement. At a meeting of creditors a composition of 16*s.* in the pound was accepted, and a resolution expressive of sympathy with the partners was passed. The business of this bank was subsequently resuscitated in a joint-stock form under the title of the Cornish Bank, Limited.

As if the failures, and rumours of failures, amongst the country banks were not enough at this period of great anxiety, some individuals concocted, and spread abroad, certain diabolical rumours respecting some of the London banks. But when they directed their chief attack against one of the largest of them all, the absurdity of the rumours

showed the cloven hoof so plainly as to render it very easy to connect them with certain operators on the Stock Exchange who had large "bear" accounts open in bank shares. The result of their operations, in conjunction with a certain amount of fright on the part of shareholders, especially in unlimited banks, was that these securities were depressed by between 20 and 30 per cent.

We have said that the *acute* stage of the panic terminated about the end of October. After that period confidence was again beginning slowly to be felt, but the restoration of confidence was seriously interfered with by Fenton's and the West of England Bank failures. And just when the effect of the latter was beginning to wear off, the commercial world was doomed to still further disappointment, and the return of confidence was once more retarded, by the Cornish Bank failure in the beginning of January.

To complete the record of banking disasters during this period, the failures must be mentioned of Vivian, Grylls, Kendal, and Co., of Helstone, Cornwall, on the 4th of February, and of Swann, Clough, and Co., York, on the 8th of May. They were both old established concerns. The former failed in consequence of a steady drain upon the resources of the bank ever since the date of the failure of Tweedy, Williams, and Co., and the latter in consequence, it was understood, of an unrealizable lock-up, as usual.

With the failure of Vivian's, of Helstone, the crisis of 1878 may be said to have passed away, and confidence was soon thereafter fully restored.

SECTION XXXV.

BANKING LEGISLATION, 1879-1880.

IMMEDIATELY after the failures of the City of Glasgow and West of England Banks, and the blow which was thereby dealt to the principle of unlimited liability, it is not to be wondered at that bank shareholders began very carefully to scrutinize their position in the light of these two great catastrophes. And although it will readily be admitted that this principle has served its object well, and has built up our banking system to its present strength, it must be confessed that it was more than human nature could reasonably be expected to endure, that shareholders should quietly remain under a responsibility the extent of which they never dreamed of, until it was brought so painfully before them by the ruin of the great bulk of the proprietors in these two unfortunate concerns.

It is true that such a disaster as that of the failure of the City of Glasgow Bank is unprecedented in the annals of banking; and though it may be true that such a disaster is unlikely ever to happen again, yet shareholders properly thought that it behoved them to guard against any contingency of the like nature by either selling out of unlimited companies, or by agitating that the banks with which they were connected should register under the limited liability Acts.

Nor was this an unreasonable action or an unreasonable agitation on their part, for it must be admitted that the

return on their investment—to all, at least, but to shareholders of long standing, amounting, in the best banks, to no more than 4 or 5 per cent., was totally inadequate to compensate them for the risks they ran. And it was moreover properly argued, that it was but fair that the depositing public of banks should take some of the risk upon their own shoulders, in return for the convenience granted them by their bankers keeping their accounts, and giving them other privileges and facilities, whereby they were enabled to make profit.

These being the views very widely held by shareholders and others deeply interested in the soundness and good government of our commercial affairs, public expression in many forms was given to them.

During the acute stage of the crisis, men's minds were too full of other things to give much heed to such topics, but as soon as this stage had been passed, the indiscriminate selling of unlimited bank shares which had been initiated during the crisis by panic-stricken shareholders, was deliberately carried on by the more thoughtful of them, who were desirous of getting rid of a burden which they conceived they were not justified in sustaining. These sales, in conjunction with the expression of the well-weighed opinions of many who were entitled to speak on such a subject, necessarily forced the whole question upon public attention.

Hence, in meetings of the Social Science Association, and of banking institutes, in the daily and weekly papers, and in the Houses of Parliament, the whole subject was fully discussed. In the House of Commons many attempts were made by private members to deal with the question, but although each offered some good suggestions, and contributed valuable material to the consideration of the subject, not one could command sufficient support to

render his scheme likely to meet with acceptance, and the bills one and all had to be withdrawn.

These abortive attempts at legislation were useful in their way, for they helped to keep the question before the public, and drew attention to the points in our banking system requiring reconsideration, as evidenced by the recent failures. It was evident, however, that no legislation on such an important subject could be satisfactory unless it was effected under the responsibility of the government; and accordingly the government, under the pressure of public opinion, determined to deal with the matter themselves.

In February, 1879, the Chancellor of the Exchequer, in the House of Commons, indicated the intentions of the government; but as these seemed to contemplate no more than to make the provisions of the Act of 1862 more elastic, and to give greater facilities for registering under that Act, and to amend certain technical difficulties which had cropped up under it, they were considered wholly inadequate.

Meanwhile the question was further ventilated by the introduction of other bills by private members impatient of delay, and by meetings of different classes of joint-stock banks. In this way time was gained to look at the matter from all sides, and there was thus less fear that it would be dealt with in a slipshod fashion, or under the influence of panic feeling, which might have led to drastic and heroic remedies, which might possibly have proved worse than the evils they sought to cure.

Having patiently obtained all the information it was possible to get, the Chancellor of the Exchequer on the 21st of April introduced his measure, entitled, "A Bill to amend the Law with respect to the Liability of Members of Banking and other Joint-Stock Companies, and for other purposes."

The main objects of the bill were to establish the new principle of "Reserve Liability," giving a reserved liability as regards the general debts of the company, but an unlimited liability as regards the note issues; to enact that all banks registering under the act should take the title of "The —— Reserve Liability Banking Company," or, "The —— Banking Company, Limited by Reserve"; to provide for a compulsory and independent audit; and to prescribe a uniform form of balance-sheet.

The characteristic of reserve liability, as set forth in the bill, was that the amount thereof should only be called up in case of failure, and for the purposes of the liquidation; and that it should amount to a sum equal to, or some multiple of, the nominal amount of the share in respect of which it was payable.

In addition to these objects there was another very important one, to the effect that no bank of issue should be allowed to register as a reserve liability company so long as it had any establishment as a bank in any part of the United Kingdom other than that in which the head office or principal place of issue was situate. This was the eighth clause.

This eighth clause was of course received with strong disfavour by the Irish and Scotch banks. It will be seen that it was aimed directly against them, for some of the Irish and nearly all the Scotch banks of issue had offices in London, while none of the English banks had offices in Ireland or Scotland. The effect of the clause, had it been passed, would have been to have driven the unlimited Scotch and Irish banks out of London, if they had taken advantage of the permissive powers of the bill.

This was an endeavour to do by a side wind that which was directly attempted to be done in 1875 by a bill introduced into the House of Commons by Mr. Goschen, at the

instigation chiefly of some of the London and English provincial bankers. At that time the matter was very fully discussed, both in and out of Parliament, and a committee of the House of Commons was appointed to take evidence and consider and report on the subject.

This committee sat for a long period and took voluminous evidence, which was merely reported to the House, but with respect to which no recommendation was made; and the government thereupon declined to give any countenance to Mr. Goschen's scheme, and he did not proceed further with his bill.

It was, therefore, all the more to be regretted that the same government should have grafted on to the stem of its otherwise admirable bill, an excrescence which was entirely foreign to its principle and its scope. It is the function of government to look after the interests of the general public, and not, however innocently, to play into the hands of a small and interested class, as it assuredly would have done had it driven the Irish and Scotch banks out of London, and thereby reduced wholesome competition, and given a practical monopoly to the other London bankers.

Strong representations were made to the government with respect to the eighth clause, in memorials from the Irish and Scotch banks, and separately from the Royal Bank of Scotland, the latter pointing out that its position in London was secured by Act of Parliament, passed in 1873, with the full approval of the committee of the Association of English Country Bankers.

With the exception of this clause the bill was generally cordially approved by the Irish and Scotch banks. And at a meeting of the London joint-stock banks the bill was carefully considered and discussed, and the views expressed were afterwards embodied in a letter to the Chancellor,

which was presented to him by a deputation from their number. This letter expressed the general approval of the London banks of the measure, but suggested certain modifications relating to the common title of banks registering under the Act, to the form of balance-sheet, the audit, etc. Subsequently, on the invitation of the Chancellor, the London banks prepared a form of balance-sheet for incorporation in the bill, embracing all the salient points which it was considered expedient for the public to know.

From the time Sir Stafford Northcote introduced his bill in April, nothing further was done in the House of Commons respecting it until the 22nd of July, when it came on for second reading. Meanwhile, however, much discussion had taken place outside upon all its details. The Scotch and Irish banks were up in arms against the eighth clause. The limited banks naturally deprecated any legislation at all, as they were desirous to keep all the advantages arising out of limitation to themselves. The unlimited banks just as naturally approved in general terms of the objects of the bill. The public viewed the matter from their respective standpoints, and acted accordingly. The subject having thus been so fully ventilated outside, it was discussed in the House of Commons with great fulness and intelligence, and it was at length put into a shape which commanded general approval.

The Chancellor, in his speech on the second reading, admitted the force of the representations made to him by the Irish and Scotch banks, and withdrew the objectionable eighth clause altogether. It cannot be said, however, that this was done with a good grace, for, under the same influence apparently which inspired the eighth clause, he seemed to seek to attain the object of that clause in another way. He proposed to eliminate Ireland and Scot-

land from the operation of the bill, on the ground that the session was so far advanced as to leave no time to deal satisfactorily with so large a subject; and he promised a measure in the next session dealing with the banks of those two countries. This project was so strongly objected to by the Irish and Scotch members, who plainly intimated that they would not allow the bill so mutilated to pass, that the Chancellor was again forced to yield. Accordingly the discussion was proceeded with, on the understanding that the bill should apply to the whole kingdom; and, ultimately, the second reading was passed, and the bill committed *pro forma*. A fortnight later the House went into committee on the amended bill.

It is needless to describe in detail the discussions which led to the alteration of the bill in many material points. Suffice it to say that the clause which proposed to enact that all banks registering under the Act should take the title of "reserved liability" was expunged, and in its place a simple provision was inserted, extending the scope of the Companies' Acts of 1862 to 1877, which require the affix of the word "limited" to the title of any company registering thereunder.

At this point, in consequence of the multiplicity of counsel, and the antagonistic interests involved, the bearings of the discussion seemed in danger of being lost; but, at the instance of Mr. Shaw, the member for Cork, who led the committee out of the difficulty into which they had got, the *principle* of reserve liability was retained. Mr. Shaw proposed that "An unlimited company may, by the resolution passed by the members, when assenting to registration as a limited company under the Companies Acts, 1862 to 1879, and for the purpose of such registration, or otherwise, increase the nominal amount of its capital by increasing the nominal amount of each of its

shares: Provided always that no part of such increased capital shall be capable of being called up, except in the event of, and for the purpose of, the company being wound up."

"And in cases where no such increase of nominal capital may be resolved upon, an unlimited company may, by such resolution as aforesaid, provide that a portion of its uncalled capital shall not be capable of being called up, except in the event of, and for the purposes of, the company being wound up."

"A limited company may by a special resolution declare that any portion of its capital which has not been already called up, shall not be capable of being called up, except in the event of, and for the purpose of, the company being wound up; and thereupon such portion of capital shall not be capable of being called up, except in the event of, and for the purposes of, the company being wound up."

The first paragraph of this clause (the fifth in the Act) was designed to meet the case of unlimited banks whose capital was all paid up, and who might desire to register under the Act, but who would practically be debarred therefrom because of their thereby making themselves *absolutely* limited, as would have been the case under the clause as it originally stood in the bill.

Mr. Shaw having thus extricated the committee from a difficulty which at one time seemed insurmountable, the remaining clauses were rapidly proceeded with and disposed of.

The bill was finally passed on the 15th of August, 1879, and it now constitutes the Act 42 and 43 Vict., c. 76, entitled, "An Act to Amend the Law with respect to the Liability of Members of Banking and other Joint-Stock Companies, and for other purposes," which contains the following clauses:

1. Act may be cited as the Companies Act, 1879.

2. Act shall not apply to Bank of England.

3. Act shall be construed as one with the Companies Acts, 1862, 1867, and 1877, and those Acts, with this Act, may be referred to as the Companies Acts, 1862 to 1879.

4. Any company registered before or after the passing of this Act as an unlimited company may register under the Companies Acts, 1862 to 1879, as a limited company, or any company already registered as a limited company may re-register under the provisions of this Act.

The registration of an unlimited as a limited company shall not prejudice any debts entered into prior to registration.

5. Is Mr. Shaw's clause, referred to above.

6. Provides that a bank of issue, registered as a limited company, either before or after the passing of this Act, shall not be entitled to limited liability in respect of its notes.

7. Provides for a compulsory and independent audit once at least every year, by auditors appointed by the shareholders.

8. Enacts that every balance-sheet shall be signed by the auditors, and by the secretary or manager, and by at least three of the directors.

9. Contains provisions for closing the registration of a company formerly registered, and dispenses with the delivery of the necessary documents when re-registering under this Act.

10. A company registering under this Act may avail itself of the privileges conferred by the Act, notwithstanding any provisions contained in any Act of Parliament, Royal Charter, or other instrument constituting or regulating the company.

In the above form the bill was passed, and it will therefore be seen that the idea of a uniform balance-sheet was given up.

There can be no doubt that the Act, although far from perfect, is a step in the right direction, and secures to creditors a better class of shareholders than was likely to exist upon the old basis, when it was brought home to them by the bank failures what risks they ran.

The Act being a purely permissive one, it was not to be expected that a great rush would be made by the unlimited banks to take advantage of its provisions. The change of the relations between the shareholders—the debtors, and the depositors—the creditors, was too sweeping to admit of any hasty or ill-considered action. Although the shareholders had no doubt of the advantage of the change to them, they feared that the reduction of the security might frighten depositors, and lead them to remove their business to banks remaining unlimited. Hence, although the unlimited banks had approved of the measure, and had used their influence to get it passed, after it became law there was some reluctance exhibited to take advantage of its provisions, and no bank seemed to care to be the first to make the experimental plunge. At length, however, on the 24th of October, a meeting of the unlimited banks was held in London to consider the subject, and the conclusion was generally come to that it would be advisable to register under the Act. Accordingly, shortly afterwards, announcements were made by some of the leading London and country banks that they would do so. Among these may be mentioned the London and Westminster, the National Provincial, the London and County, and the Manchester and Liverpool District Banks. And the ice having been broken by such high-class institutions, others followed suit in quick succession. A still greater

impetus was given by the remarks of the chairman of the London and Westminster Bank at its annual meeting in the following January. He stated that since the bank had come under the Act, the number of accounts and the amount of deposits had increased, and the proprietors had become of a better class. We believe this is the experience of the large majority of the banks which have registered. It is natural that it should be so, for the public are wise enough to see that the *limited* liability of a wealthy proprietary is a greater security to them than the *unlimited* liability of men of straw, into whose hands there is a danger of such shares falling, since the risks of holding them have been proved to be so great.

The chief object of the Act of 1879 being, as we have seen, to *restrict* the liability of shareholders by giving permissive power to create a limited reserve liability instead of an unlimited liability; or to declare, in the case of companies already partially limited, that their uncalled capital should be converted into a reserve liability, and *not* to give power to such companies as already happened to be absolutely limited, to *extend* their liability; there were a certain small number of banks existing in the kingdom which were shut out from the advantages of the Act.

Among such banks were the five old chartered banking corporations, viz.: The Bank of England, the Bank of Scotland, the Royal Bank of Scotland, the British Linen Company Bank, and the Bank of Ireland. These five banks, by virtue of their constitution as chartered corporations, were debarred from placing themselves under the Act, which only provides for the re-registering of companies already registered under the "Companies" or other Acts.

These banks stand in a unique position as regards all other banks in the kingdom. They were incorporated by Act of Parliament or by Royal Charter long anterior to

the Act of 1826 permitting the formation of joint-stock banking companies, and, as a necessary incident of their incorporation at common law, the liability of their shareholders is limited.

As there has been some discussion on this subject recently, and as it has been doubted whether this is the position of the chartered banks, it may be well to look for a moment at the authorities for the dictum.

In 1826 Select Committees of the House of Lords and the House of Commons on Promissory Notes reported to their respective houses that members of chartered companies were by virtue of their charters protected from personal responsibility beyond the amount of their respective shares.

And Sir Robert Peel in his Bank Act of 1844, and his Irish and Scotch Acts of the following year, specially exempted the five banks named from the obligation of making an annual return of the names of their members to the Commissioners of Stamps and Taxes.

In "Bell's Commentaries on the Laws of Scotland," also, in book v. chapter 1, section 3, it is stated that "The chief benefits of a charter to a company, and the most remarkable of its peculiarities when compared with the constitution of private partnership, are that it enjoys the privileges of a corporation; the power to hold lands; to make bye-laws; *to enjoy in its several partners freedom from any responsibility beyond the stock*, with the power of selling their shares, and thereby transferring their right and character of partners to others who become partners. *The debts of the company affect only its stock*, so that neither can the individual members be prosecuted or have diligence directed against them; *nor can they be called upon to make up any deficiency to the creditors.*"

And coming to our own day, we may mention the opinion

of the Lord President of the Court of Session expressed in his judgment in the case of Murdochs Trustees *versus* the Liquidators of the City of Glasgow Bank, already referred to in the previous section. Counsel for the Trustees argued that the City of Glasgow Bank, having been registered under the Act of 1862, became thereby an incorporated company, and that the rules of liability of shareholders in an unincorporated bank were no longer applicable to it. With reference to this argument the Lord President in his judgment said, "If a joint-stock company, by registration under the Act of 1862, becomes without condition or qualification a corporation, with all the characteristics belonging to a corporation at common law, there would be an end of this case. Such corporations are created by special statute or by royal charter for carrying out important public objects, and have also been created occasionally for trading purposes, and notably for carrying on the trade of banking; and in such cases, if the special Act or charter of incorporation does not expressly make the corporators liable for the debts of the corporation, they will not be so liable. The corporation, being a separate person, has its own estate and its own liabilities, and the corporators are not liable *for* the corporation, but only *to* the corporation, within the limit of the obligation they have undertaken to subscribe to the corporation funds. '*Si quid universitati debetur singulis non debetur nec quoad universitas debet singuli debent.*'"

So far from this view being questioned, indeed, it seems rather to have been doubted at one time whether it were legally possible for the members of a corporation to impose upon themselves voluntarily any liability beyond the amount of their shares. But to set the question at rest, a permissive Act was passed in 1825 (6 Geo. IV, cap. 91), which provided, "That in any charter hereafter to be granted by

His Majesty, his heirs, or successors, for the incorporation of any company or body of persons, it shall and may be lawful, in and by such charter, to declare and provide that the members of such corporation shall be individually liable in their persons and property for the debts, contracts, and engagements of such corporation, to such extent, and subject to such regulations and restrictions, as His Majesty, his heirs, or successors, may deem fit and proper, and as shall be declared and limited in, and by, such charter; and the members of such corporation shall thereby be rendered so liable accordingly."

And it is by virtue of this permissive Act that the shareholders of most of the India and China and Australian banking corporations in London are liable for double the amount of their shares.

The Act of 1879 was therefore wholly unavailable to the banks named, and there was no other Act under which they could go whereby they could gain the objects of that Act. But the three Scotch chartered banks having determined to move with the times and provide for their creditors some security beyond their existing large paid up capitals and reserve funds, in November, 1880, lodged private bills parliament for that end.

The bills were introduced in the House of Lords, and passed the second reading there, but at that point their further progress was stopped for the time being by the government.

It was understood that the government took up this position at the instance of some of the English bankers, who objected to any new privilege whatever being granted to any bank; and at the instance of the other Scotch banks, who objected to the senior banks obtaining the privilege of reserve liability without being obliged so to designate themselves. The junior banks foresaw that probably they

would be obliged, by the pressure of their shareholders, to register under the Act of 1879, and so have to assume the title of "limited,"[1] and they objected to being compelled thus publicly to announce the fact, while the senior banks, if their bills passed, would be under no such obligation.

The government having blocked the passage of the bills, the banks, their promoters, arranged an interview with the Treasury. At this interview the government stated their objections to the proposed legislation, and a few days later these were formulated in a Treasury minute dated the 24th March, 1881, addressed to the banks.

In this minute the following objections were urged by the government:

They thought that fresh powers or privileges should not be granted to banks claiming limited liability for note issues; nor to banks claiming limited liability, but not adopting the designation "limited," which is now a requirement of the general banking law; and, moreover, they considered private legislation on a subject of important public policy to be objectionable.

With regard to the note issues, the minute pointed out that since 1845 it had been the traditional policy of every successive government, in granting fresh powers to, or removing restrictions from, privileged banks, to make these dependent on a review of privileges. It also pointed out that while the principle of limited liability for ordinary obligations has, since 1845, received more general acceptance, the legislature has rigorously insisted on unlimited liability for note issues. The government, however, while saying that they were determined to oppose the grant of

[1] All the Scotch banks with the exception of the three old chartered banks mentioned above, have since registered under the Companies Acts with limited liability.

fresh powers if the three banks continued to ask for them accompanied by limited liability for notes pure and simple, expressed themselves as ready to give their best consideration to any proposals by means of which the banks might think it possible to meet the wishes of the Treasury without encountering the difficulties mentioned.

To the non-adoption of the term "limited," the Lords of the Treasury also entertained a strong objection, because it was a leading principle of the Act of 1879 to secure greater uniformity in banking regulations, and that uniformity, in their opinion, would be departed from if the bills were passed as they stood, and without making it obligatory upon the banks to adopt that affix. Moreover, the government considered it expedient that the public should know the status of the banks with which they dealt, and therefore the Act required such banks as might be limited so to designate themselves.

With regard to the objection to legislation by private bill, the Treasury held that no measure of important public policy should be so dealt with; and stated it as their opinion that the proper mode of dealing with the case of a bank whose circumstances debarred it from availing itself of the benefits of the general law, would be by a public Act modifying the general law only to the extent of the proved necessity.

To these objections the banks replied:

1st. That inasmuch as the liability of the three banks was limited—for the note issues as well as for the general obligations—and having been so recognized by Sir Robert Peel in his speech introducing the Scotch Bank Bill of 1845, and by parliament in passing the Act, there would be insuperable legal difficulties in the way of imposing upon existing shareholders in respect of the notes an unlimited liability, which they never undertook. While point-

ing out the impossibility, however, of securing the notes in this precise form, the banks expressed their desire to confer with the Treasury as to the best means to secure the same end in another way.

2nd. That it was a legal impossibility for the three banks to register under the Act of 1879. That Act was available only to unlimited companies, or to companies previously registered under the Companies Acts as limited, and the three banks were within neither category. The banks further pointed out that so far from the uniformity of banking regulations being broken by the non-adoption by them of the title "limited," it would, in reality, be broken by its adoption, inasmuch as parliament every session, in granting fresh powers to chartered companies, has never required them to designate themselves limited.

The banks also reminded their lordships of a case in point which occurred in 1880, *after* the passage of the Act of 1879. Lord Beaconsfield's government introduced a bill in February, 1880, providing for the continuance in perpetuity of the charters (granted for limited periods and with limited liability) to the Indian and Australian and other colonial banks of London, *and giving them powers to increase their capital at will, without requiring them to adopt the designation "limited."* Lord Beaconsfield's government fell before they could pass this bill, and were succeeded by Mr. Gladstone's government, who, in a Treasury minute, dated 21st July, 1880, expressed general approval of the principles embodied in the bill, and promised to carry them out when practicable.

The banks further submitted, that there was no instance on record of a corporation, or company of any kind, not registered under the Companies Acts, bearing the name limited, and that the reason therefor was obvious. That

term, applied to an unlimited partnership registering under the Companies Acts, was natural and intelligible, for it denoted that the partners had by registration chosen to alter their relations to their creditors, by limiting their common law unlimited liability. But with a corporation the case was different. A corporation being, not a partnership, but a distinct person in the eye of the law, and being liable only to the extent of its corporate funds, could not assume a title which would not only be misleading, but be an absolute misnomer. The assumption of the word limited by the three banks would signify that they had in some form *restricted* their liability, while in point of fact the change of designation would accompany, not a limitation, but an *extension* of liability, and of security to the public.

With regard to the Treasury's objection to legislation by private bill, the banks submitted that no other course was left open to them, as it was impossible for them, as banking corporations, to come under the Companies Acts; and they submitted the opinion of several eminent counsel, that in no other way than by private bill could they attain the objects they had in view.

Following upon this correspondence the banks had an interview with the Treasury, with the view of giving further explanations, and endeavouring to meet their wishes with respect to the note issues. At that interview the banks offered to secure the note issues in a more absolute form than by the mere unlimited liability of the shareholders—they offered to secure them by a special appropriation of government securities to the amount of their present authorized circulation, and of coin to the extent of the remainder of the circulation in the hands of the public. But this advance on the part of the banks did not meet with the cordial response from the Treasury which the

former might reasonably have expected, considering the terms of the first minute, wherein their lordships expressed their readiness to consider any proposals by means of which the banks might be able to meet their wishes with regard to security for the note issues.

With reference to this interview, and in reply to the letter of the banks, the Treasury issued another minute, dated the 4th of June. In this minute they addressed their arguments chiefly to the two main points of difference between themselves and the banks, viz., the questions of issue and title. With regard to the title, they simply affirmed that they could see no reason why a bill conferring new powers should not require a limited bank adopting those powers to conform to the general banking law of the United Kingdom, and announce its status to the public beyond the possibility of misapprehension, by adopting the title of "limited."

Respecting the question of issue, the government admitted the difficulty under which the banks would labour if they endeavoured to impose unlimited liability for notes on present shareholders; but they announced in definite terms their determination to grant no new privilege which would hinder or delay the gradual absorption of private issues, with the view of these being ultimately replaced by a State issue.

Accordingly the government declined the offer of the banks to secure their issues by the deposit of government securities and coin, ostensibly on the ground that it would introduce into private legislation a principle of banking which was new, and which had not received the sanction of Her Majesty's Government.

On the other hand, the Treasury offered to the banks a lease of their right of issue for a number of years certain, subject to the payment of a moderate royalty. This offer

was based on the principle of a measure dealing with English banks of issue introduced before parliament by the government of Lord Palmerston in 1865, but never passed into law.

As an alternative offer, the Treasury proposed to the banks that the latter should join the government in considering the terms upon which a State issue of notes, conducted through the agency of all the banks, and maintaining the specialty of the one-pound circulation, might be introduced into Scotland in lieu of the present note circulation of the banks.

In their reply to this minute the three banks maintained the accuracy and justice of their view of the unreasonableness of being required to adopt the affix of "limited," which, they contended, would be in their case a meaningless and inappropriate title, and would put them out of harmony with the designations of the only other two banks similarly constituted in the kingdom.

The question, however, of the note issues was that to which the banks chiefly addressed themselves.

It seemed as if the government had made a complete change of front. In their first minute their chief care was to protect the public, by imposing on the banks, as the price of the powers they sought, unlimited liability for the notes. The banks offered a more absolute security than this, viz., government securities and coin specially earmarked. Then the Treasury said they could not accept this as a settlement of the question, as they were determined to adhere to the policy of successive governments ever since 1844, to grant no new privilege which would hinder or delay the gradual absorption of private issues.

With reference to this the banks pointed out in their reply to the Treasury that the policy which they professed to follow had been very frequently departed from. Govern-

ment had very lately granted enlarged powers, capital and otherwise, to the Bank of Scotland and the Royal Bank; had conceded the important privileges, already referred to, to the chartered colonial banks in 1880; and had by the very Act of 1879 granted to every unlimited bank the privilege of limiting their liability—none of which powers or privileges were ever intended to hasten, but, on the contrary, were calculated to delay, the absorption of private issues.

The banks further pointed out that the suggestions offered by the Treasury made it plain that what they desired was the absolute surrender by the banks of their rights of issue, and not the protection of the public, for the Treasury were willing to grant a lease of the rights of issue without any security whatever.

The offer of a lease of the rights of issue was naturally rejected by the banks, who pointed out that those rights were already theirs, and had been exercised under express grants from the Crown or Parliament for from 135 years in the case of the youngest, to 186 in the case of the oldest of the three.

With regard to the Treasury suggestion of a State issue. the banks replied that in their opinion, that would not be acceptable to the people of Scotland, inasmuch as the suppression of the present issues would be more detrimental to the public than to the banks, and would involve the closing of many of the branch banks now existing, and lead to a serious diminution of banking facilities.

The banks wound up their letter by indicating that, in view of the attitude taken up by the government, they would not proceed further with their bills; and the correspondence was closed by a letter from the Treasury regretting that the views of the government did not accord with those held by the banks.

As a pendant to the Act of 1879 it may be advisable to mention that a further Act was passed in 1880 (43 Vict., c. 19), empowering any company to return to its shareholders any accumulated profits in reduction of paid-up capital; but requiring at the same time that the *unpaid* capital should be increased by a similar amount. It also provided that any shareholder might, instead of taking payment in cash, require the company to hold and invest his share of the returned capital to meet any future calls. The Act also gave power to the Registrar of Joint-Stock Companies to strike the names of defunct companies off the register in certain circumstances.

It is enacted that this Act shall be construed as one with the Companies Acts of 1862, 1867, 1877, and 1879, and that the said Acts, and this Act, may be referred to as the Companies Acts, 1862 to 1880.

Reference has frequently been made in the preceding pages to the bill introduced by Lord Beaconsfield's government, dealing with the charters of the Colonial banks, and it will be convenient under this section to give some account of the bill.

The charters of the colonial banks were originally granted for longer or shorter terminable periods; and, at the expiration of such times, it was always necessary to have them renewed for a further terminable period. This system having been found somewhat cumbersome, a suggestion was made to the government on behalf of the banks, that a bill should be introduced into parliament authorizing the perpetuation of the existing charters. This suggestion was favourably received by the government, and in accordance therewith they introduced a measure in February, 1880, entitled, "A Bill to make further provision with respect to certain Chartered Banking (Colonial) Companies, and for other purposes."

The preamble recited that the powers and privileges conferred by the charters of these banks are subject to determination at the times mentioned in the charters, but are capable of being renewed at Her Majesty's pleasure; that the said charters authorize the Treasury to control in certain respects the management of the banks; and stated that it is expedient to relieve the Treasury of its functions in these respects, and leave to the banks the uncontrolled management of their own concerns; but that at the same time it would be inexpedient that such removal of control by the Treasury should involve the determination of the powers and privileges conferred by the charters.

And the bill therefore proposed to enact:

That the charters of the banks named in the schedule, in force at the date of the passing of the Act, and all powers and privileges therein contained, should, on the expiration of the time at which such charters are respectively limited to expire, continue in the same manner, in all respects, as if there were not in force any provision determining the same.

That power should be given to each of the banks, by special resolution passed by a majority of not less than three-fourths of the shareholders, to increase its capital by the issue of new shares of such amount as might be considered expedient, or consolidate and divide its capital into shares of larger amount than the existing shares.

That nothing in the Act should authorize any of the banks to exercise any power in relation to note issues, or in relation to the establishment of branch banks in any colony, which it is not exercising at the time of the passing of the Act, and to the exercise of which the sanction of the Treasury is required, save with the assent of the governor of the colony where it is proposed to exercise such power;

or, in the case of India, save with the assent of the Secretary of State in Council.

That from and after the passing of the Act the Treasury should cease to exercise the powers and control vested in them by the existing charters.

Provided—That nothing contained in the Act should affect the power of Her Majesty to revoke any charter, in such events as are at present contemplated in such charters.

This bill was referred by the House of Commons to a Select Committee for consideration. The Committee sat, and took evidence, and duly reported to the House, but before anything further could be done in the matter, the government resigned.

Shortly after the accession of Mr. Gladstone's government to power, however, the colonial banks brought the matter before them, and evoked a reply in the shape of a Treasury minute, dated the 21st July, 1880, of which the following is a copy:

"My Lords read the bill brought into parliament by the late Board of Treasury making further provision with respect to certain Chartered Banking (Colonial) Companies. They read also the report of the Select Committee to which that bill was referred. They approve generally the principles embodied in the bill, and they would have been willing, if time and other circumstances had permitted, to re-introduce it in the present session, modifying it only to this extent, that they would have reserved to parliament the right from time to time of reconsidering the privileges which the charters confer. But the late period at which the work of the present session commenced, and other circumstances, have made it impossible for them to bring the question before parliament with fair prospect of exhausting the debates which they have reason to anticipate on the subject of the bill, and of passing it. The chartered banks

affected by the bill have now been kept for some time in suspense as to the conditions to be imposed upon them, and my Lords would be reluctant to prolong a state of suspense, which is in no degree due to the action of the banks themselves. They have accordingly considered whether they could adopt a course which would prepare the way for the advantages sought in the bill, while reserving to parliament due power of review; and they propose to attain these objects in the following manner. They will cause a model charter to be prepared, embodying in simple and concise terms the provisions of the bill of the late government, with any general clauses of the existing charters applicable either wholly or with slight modifications to all the banks. On the expiry of a charter, if the Bank desires a new charter, my Lords will lay upon the table of both Houses a draft containing the provisions of the model charter, and so much of any special matter in the previous charter as my Lords may decide to be not inconsistent with the said provisions, and after the draft has lain for a certain period unchallenged, they will advise her Majesty in Council to grant the charter to the bank for a further limited period. Many of the charters do not expire for a considerable period. Should, in the meantime, the directors of any chartered bank desire to obtain a supplementary charter, or to resign their charter and obtain a new one, my Lords, if in the exercise of their discretion, they entertain the proposal at all, will deal with it on the same principles as if the charter had expired by efflux of time. So long as existing charters remain in force my Lords will exercise the powers assigned by such charters to the Treasury according to their best discretion. My Lords will be ready to communicate the model which they propose to adapt to the different banks concerned, as soon as it is prepared, it being their object to offer no obstacle to the pro-

gress of the banks so long as the control of parliament and the simplicity and soundness of the regulations approved by the Treasury are secured. My Lords have only to add that the final arrangements should be such as will reserve to parliament entire liberty in dealing with this as with any other banking question. They will therefore endeavour to fix the limits of time for new charters on such a principle as will eventually ensure concurrence of the periods for which they are granted. A copy of this minute has been sent to each of the banks in the schedule of the Chartered Banks Bill laid before parliament in February last."

SECTION XXXVI.

THE BARING CRISIS AND ITS LESSONS.

TO many who have studied the history of banking during the nineteenth century, it is a constant source of surprise to note how small was the profit which bankers, as a class, seem to have derived from the lessons taught by the constantly occurring financial crises. Almost as soon as the devastation wrought by one of these disasters had been repaired, the seeds of another disaster were sown. Indeed, financial men almost grew to regard them as the inevitable concomitant of a system of credit such as ours, and propounded theories of regularly occurring cycles of prosperity and depression. It was the swing of the pendulum which could not be avoided so long as the machinery was at work. It is true that after each catastrophe a Select Committee was usually appointed, or some other form of official inquiry made. Witnesses were examined and a report made, but no practical result seemed to accrue. Perhaps it was because men had set up a fetish from whose influence they were unable to free themselves. They persisted in regarding the note circulation as the mainspring of the whole banking system; they were fully persuaded that if the note circulation were on a satisfactory basis, nothing could go wrong. They inquired into the operation of the Bank Acts with a view to legislating monetary panics out of existence.

But throughout the nineteenth century the note circulation of the country had been gradually losing ground as

the controlling factor in the maintenance of our financial well-being. People were slow to recognize that credit could be created and circulated in many ways quite independent of the issue of bank notes, and that to regulate these various forms of credit by legislative enactment was a hopeless task. Very little stress was laid upon the importance of prudence, moderation, self-restraint, and foresight among individual bankers, and the necessity for combined action and unity of purpose among bankers as a class, in order to preserve us from such evils as were experienced in 1847, 1857, and 1866.

It is this which seems to distinguish the Baring crisis from its predecessors. This is all the more strange because the crisis never reached the acute stage; that is to say, although it threatened a danger as great, or even greater, than any of its predecessors, yet the general public knew nothing of it until the danger had been met and the crisis past. There was no failure of confidence nor any panic. But the very success of the steps taken to meet the crisis marked the difference between the ideas prevailing in 1890 and those of the previous generation of bankers. It was realized that confidence must be maintained at all costs, and that every bank must subordinate its own individual interests to the necessity of joint action for the common good. That such action was able to succeed was in one sense fortunate, but it was also due to the lessons which had been slowly learnt from the earlier disasters. The earlier panics had been the result of bad banking, of improvidence and shortsightedness in financial, as well as banking circles, due, in a large measure, to inexperience. The measures which proved successful in 1890 would probably have been useless in 1857 or 1866. But in 1890 there was no general rottenness revealed such as existed in these two years.

It is not claiming too much if we assume that the business classes generally had profited from the lessons of the middle of the century, and had found out that no amount of legislative control will compensate for the absence of ordinary business prudence. At all events, there was no inquiry into the action of the Act of 1844, but ever since then there has been a growing tendency to lay stress upon the necessity for insuring sound *banking* methods, whether by the creation of larger reserve funds and cash reserves, or by greater publicity, or by more foresight in taking early and united action to meet impending danger.

It is often insisted that the Baring crisis was not a banking crisis because the stability of no bank was called in question, but this was only because the crisis was not allowed to develop. Although Baring Brothers were not bankers in the ordinary acceptation of the term in this country, but merchants and financiers, yet there is not the slightest doubt that if they had been allowed to default, a banking crisis of the very severest kind would quickly have followed. Barings had financed the Government of the Argentine Republic to a very heavy extent, and when, during the summer of 1890, the credit of the South American Republics suffered a severe check, they were not the only people who were hard hit. The value of Argentine securities dropped rapidly, and Barings were unfortunately committed to make further advances amounting to nearly £6,000,000. The credit of the Argentine Republic had become so bad that it was hopeless to invite the public to subscribe for a loan, and on 8th November[1] Barings approached the Bank of England for assistance. In the meanwhile all kinds of rumours were

[1] R. B. Turner, "Chronicles of the Bank of England," p. 266.

afloat in the City, and a very restless feeling prevailed. Bank rate had been at 5 per cent. since 25th September, and the state of the Bank of England reserve, and reports that considerable sums of gold were wanted for export, gave rise to the expectation of a further rise. On 6th November, however, no change was announced, and the bank return, which is given below, was not such as to cause special alarm.

BANK OF ENGLAND RETURN, 6TH NOVEMBER, 1890.

Issue Department.

	£		£
Notes issued . . .	35,026,270	Government debt .	11,015,100
		Other securities .	5,434,900
		Gold coin and bullion	18,576,270
	£35,026,270		£35,026,270

Banking Department.

	£		£
Proprietors' Capital	14,553,000	Government securities	15,498,500
Rest	3,158,258	Other securities .	23,127,503
Public Deposits .	2,690,386	Notes	10,238,265
Other ,, .	29,171,968	Gold and silver coin	968,243
Seven-day and other bills	258,899		
	£49,832,511		£49,832,511

On the following day, however, 7th November, the bank rate was raised to 6 per cent. Occurring as it did on the day following the ordinary Bank Court, when no change

had been thought necessary, this step was pretty clear evidence to the Money Market that the situation had suddenly changed for the worse, and the uneasiness was greatly intensified. It is plain therefore that the Bank directors had a very unpleasant situation to face when Barings disclosed the state of their affairs to the court. The total liabilities of the firm were estimated at twenty millions, and the effect of any public announcement of their position upon a market already in a panicky condition, was not one which any one would care to consider. For a week the bank directors kept their secret, but immediate steps were taken in anticipation of what might follow. As the result of negotiations with the Bank of France, £3,000,000 in gold was borrowed from them for three months at 3 per cent. interest, and £1,500,000 in gold was purchased from the Russian Government. The Prime Minister and the Chancellor of the Exchequer were consulted, and a careful inspection of the books of the defaulting firm was made. Then on the 14th November a meeting of the leading bankers and merchants of the City was summoned by Mr. Wm. Lidderdale, the Governor of the Bank of England, and the situation was laid before them. It was announced that, provided time were given, the assets of Baring Brothers were expected to prove sufficient to pay 20*s.* in the £, and it was eventually agreed that the Bank should provide the funds for liquidating the firm's affairs, and that a guarantee fund should be opened to cover any eventual loss which might occur, and to inspire the necessary confidence in the public. The following was the form of guarantee:

GUARANTEE FUND.

"Bank of England, November, 1890.

"In consideration of advances which the Bank of England have agreed to make to Messrs. Baring Brothers and Co., to enable them to discharge at maturity their liabilities existing on the night of 15th of November, 1890, or arising out of business initiated on or prior to the 15th of November, 1890—

"We, the undersigned, hereby agree, each individual firm or company, for himself or themselves alone, and to the amount only set opposite to his or their names respectively, to make good to the Bank of England any loss which may appear whenever the Bank of England shall determine that the final liquidation of the liabilities of Messrs. Baring Brothers and Co. has been completed, so far as in the opinion of the Governors is practicable. All the guarantors shall contribute rateably, and no one individual, firm, or company shall be called on for his or their contribution without the like call being made on the others. The maximum period over which the liquidation may extend is three years, commencing the 15th of November, 1890."

The guarantee was extensively signed, and in a few days the fund reached nine millions, and, eventually, nearly seventeen millions. The effect of the announcement of these arrangements was immediate and thoroughly successful. Public confidence was apparently immediately restored, and congratulations poured in upon Mr. Lidderdale and his co-directors for the promptitude and ability which they had displayed in such a dangerous emergency. The bank return of 20th November, which is in striking

contrast to that of 6th November, given above, helped to further strengthen the reaction against the previous despondency:

BANK OF ENGLAND RETURN, NOVEMBER 20TH, 1890.

Issue Department.

	£		£
Notes issued . . .	37,835,205	Government debt .	11,015,100
		Other securities . .	5,434,900
		Gold coin and bullion	21,385,205
	£37,835,205		£37,835,205

Banking Department.

	£		£
Proprietors' capital	14,553,000	Government securities	11,777,634
Rest	3,287,446	Other securities .	32,136,295
Public deposits . .	4,093,078	Notes	13,378,980
Other deposits . .	36,364,838	Gold and silver coin	1,172,642
Seven-day and other bills	167,189		
	£58,465,551		£58,465,551

What is chiefly noticeable about this return is that since 6th November, the reserve had risen from £11,206,508 to £14,551,622, that the other securities had advanced from £23,127,503 to £32,136,295, and the other deposits from £29,171,968 to £36,364,838. The first mentioned change was, of course, the result of the steps which the Bank of England had taken to obtain gold from abroad. The increase in "other securities" pointed to heavy market borrowings from the Bank of England, most of which in all probability was used in paying off short loans made by

the other banks, and therefore swelled the total of the bankers' balance at the Bank of England, included in "other deposits."

The Rt. Hon. G. J. Goschen (afterwards Viscount Goschen) was at this time Chancellor of the Exchequer. His knowledge of the City was thorough and practical, and he took an early opportunity of pointing out the weaknesses in our banking system which had been exposed by the crisis. In a speech delivered before the Leeds Chamber of Commerce on 28th January, 1891, he vigorously and pitilessly attacked these weaknesses.

"You ran the risk," he said, "of the deposition of London as the banking centre of the universe. You ran the risk of a fatal blow to English credit, and of the transfer of much of our business to other European centres, if such a far-reaching catastrophe had occurred as you were on the eve of witnessing. I cannot exaggerate the danger, the immediate danger, to which this country was exposed at that time; and we are under a deep debt of gratitude to the Bank of England for the action it took, action which enabled us to tide over the crisis." [1]

Lord Goschen then proceeded to state in the plainest terms that the joint-stock and private banks had been working with insufficient cash reserves.

"I must give utterance to a strong conviction that the present scale of the cash reserves of private banks and of other financial institutions is inadequate to the necessities of the country, too small as compared with the gigantic liabilities which are incurred. . . . I wish to insist on the point that, in times of crises, reserves are essential, and that it is of supreme importance that all the great banks of the country, at the moment when a crisis comes, should

[1] Goschen, "Essays and Addresses," p. 106.

be able to afford relief to their customers rather than that they should feel at that very moment bound to curtail the facilities which they ordinarily give. It is all very well for banks to give facilities to their customers in good times, but a customer looks to his banker for facilities when the pinch comes, and if, when the pinch comes, the bank itself is obliged to draw in its resources, to call in money from those to whom usually they are glad to lend it, it disturbs all mercantile arrangements. Such a bank is really not assisting the country, it is thwarting the interests of the banking and trading communities. Listen to the figures. The 'Economist' estimates the total deposits on current account held by all the banks in the United Kingdom, excluding the Bank of England, in July, 1880, at from £470,000,000 to £480,000,000; and in July, 1890, at from £600,000,000 to £620,000,000, an increase in those ten years of £130,000,000. I cannot tell you to what extent the banks in the aggregate increased their reserve in cash in proportion to the enormous increase in their liabilities; but I can give you some indication by the published accounts of some of the largest banks. According to the 'Economist,' the liabilities of eleven large banks were, in 1879, £126,000,000, while their cash in hand, or at the Bank of England, amounted to £16,200,000. In 1889 the liabilities had risen to nearly £170,000,000, an increase during those eleven years of £44,000,000; but the cash balances had risen in the same time only to £17,500,000, an increase of £1,300,000. Observe the operation—£44,000,000 increase in liabilities to depositors, increase in cash reserve to meet them, £1,300,000. I hope I shall not give offence, but I say I do not consider that a perfectly satisfactory position. On further examination, I find the proportion of cash to liabilities had fallen during the ten years from 12·9 to 10·3, a decrease of 2·6 on 12·9, which is about one-

fifth of the whole reserve. In the case of one bank the percentage of cash to liabilities had sunk from nearly 22 per cent. to 12 per cent., and in another case, where the percentages had fallen from 10 per cent. to a little over 6 per cent., the cash balance against the total liabilities of £9,000,000 was less than £600,000. A good deal of public attention has been called to these facts. Remember, the term 'reserves' means cash in the till or cash in the Bank of England. Some banks include 'cash on call,' but cash on call is no reserve in the general sense so far as the community is concerned, because when you call in your money on call, you may be embarrassing another person, while relieving yourself. Let the public understand this—there is only a limited amount of money unemployed. If everybody employs money up to the hilt, there will be no unemployed money to come to the reserve in time of crisis. Money on call is a valuable asset, but it is not an asset which constitutes a reserve useful to the general interests of the community at large." [1]

The remedy which Lord Goschen proposed was a twofold one. On the one hand he proposed that each individual banker should increase the amount of his unemployed assets, that is, his cash on hand or cash at the Bank of England or with the London Agent. If this object were secured the banks would, in times of emergency, be better able to assist the mercantile and financial classes, and would not be compelled in self-defence to call in money and so increase the stringency and heighten the public mistrust. His other remedy was to increase the central stock of gold at the Bank of England, and so enable that institution to face boldly a foreign drain of gold without weakening its power of assisting the public. The means he

[1] Goschen, "Essays and Addresses," pp. 111-113.

proposed to adopt in order to secure these ends were these. He proposed that instead of publishing a statement of accounts half-yearly or yearly, as the case might be, the banks should voluntarily agree to publish statements at more frequent intervals. Although he did not explicitly say so, Lord Goschen evidently thought that the increased publicity would compel the banks in self-defence to keep a larger permanent proportion of cash on hand and at the Bank of England, to liabilities. It must be noted that since the date of Lord Goschen's speech, some of the London clearing banks have issued monthly statements, and also that the proportion of cash on hand to liabilities kept by most of our leading banks has sensibly increased, being now about 15 per cent. instead of 10 per cent. But it is very doubtful whether there is any connection between these two results. Only twelve of the eighteen clearing banks publish monthly returns, and none of the country banks have thought fit to do so. The increase in the cash balances of the banks is probably a direct result of the emphatic warnings uttered by Lord Goschen and not of the increased publicity. The most noteworthy result which can be attributed to the monthly statements is the accusation of "window-dressing" which the public press has levelled against the banks. By "window-dressing" is meant this: it is said that the amount of cash on hand and at the Bank of England as published in the monthly return does not represent the average amount usually held by the banks, but that shortly before the date of the monthly returns the banks call in some of their loans at call and short notice in order that the published returns shall show a better position than that in reality occupied by the banks at other seasons. They say, in fact, that the monthly return is merely meant for advertisement purposes, and is useless as a guide to the real strength or weakness of the bank in

question. Probably there are few people who are in a position to state to what extent this practice is indulged in. That it is adopted by some banks seems unfortunately to be well-established; that it is the general practice of the leading banks is, however, extremely doubtful; that some of the best managed banks do not descend to such devices is certain. There is one way by which we might obtain definite information as to the extent of the practice, but unfortunately that way is not at present open. Previous to 1878 the Bank of England published the total of the London bankers' balances at the Bank of England, but since that date this amount has been included in the "Other Deposits." If this total were still published it would not be very difficult to detect any general attempts at "window-dressing," but the Bank of England Directors refuse to revert to their former practice in this respect.

The second of Lord Goschen's proposals, by which he hoped that the central stock of gold at the Bank of England would be increased, was a plan for the issue of £1 notes. This plan was first suggested at the dinner of the Leeds Chamber of Commerce, but it was subsequently modified in Lord Goschen's later address to the London Chamber of Commerce on 2nd December, 1891. His object was to liberate some of the gold which was held in the pockets and tills of the people, the place of which would be taken by £1 notes. He frankly avowed that although £1 notes were very popular in Scotland and Ireland, yet in England they might not find favour, in which case the scheme would prove impossible, but he believed that people would soon grow accustomed to their use. He emphasized the fact that his object was not to increase the currency, but to transfer gold from the people's pockets to the Bank of England Reserve, where he thought it would be more useful in emergency. There was to be no compulsory cir-

culation of the notes, and the whole scheme would be dependent upon the favour it would find in the eyes of the business classes and of bankers.

The details of the proposal were as follows: When the bullion in the Bank of England exceeded £22,000,000, £1 notes would be issued in the proportion of four against gold and one against securities, and Lord Goschen seemed to think it would be possible to issue £25,000,000 of these £1 notes, which would therefore increase the Bank of England stock of gold by £20,000,000. But, besides this, the Bank of England were to be empowered in cases of panic and under certain restrictions which were not enumerated, to increase the fiduciary issue of notes, without any deposit of gold. This was to be in substitution of the somewhat clumsy expedient of obtaining a letter of indemnity from the government authorizing an increase of the fiduciary issue beyond the legal limit.

It cannot be said that the scheme found much favour in the eyes either of bankers or business men. A meeting of bankers and influential merchants was summoned by the London Chamber of Commerce on 21st January, 1892, but the only result of their deliberations was the passing of a resolution: "that no change should be decided upon except after the fullest inquiry." The Institute of Bankers went to the pains of obtaining the individual opinion of each of its Fellows, but the result was not such as to encourage any further prosecution of the scheme. The objections were of many kinds. Some were based upon the inconveniences of paper money as a form of currency. Other objections were that it was a dangerous and a retrograde policy to take gold from circulation and replace it by paper. Perhaps the strongest argument was the difficulty of keeping the gold when once it was withdrawn from circulation. As the President of the Institute of

Bankers, Mr. Thomas Salt, said in his inaugural address, "It is not impossible that the reserve will disappear and the notes remain." There was no marked opposition to the plan, but there was a complete lack of enthusiasm, and Lord Goschen did not therefore feel justified in pressing it.

In spite of the improvement both in the cash balances kept by the joint-stock and private banks, and also in the amount of the Bank of England Reserve since the date of the Baring crisis, there is a widespread feeling that an increase in our visible gold reserves is still needed, and this feeling has lately developed into an insistent demand for action. Not that we have been threatened with another crisis or that the stability of our banking system has been endangered. The complaint is that the smallness of our gold reserves causes too great an instability in the rates of interest. Raising the general level of interest rates in the London Money Market is almost the only method of attracting gold and preventing its export, and the constant changes in the general level of interest rates caused by changes in the Bank of England official discount rate are detrimental to the best interests of the country. To quote Mr. R. H. Inglis Palgrave's words: "Great instability in the rate of discount is a very prejudicial thing to the interests of commerce, and hence to those of banking. The close competition between one country and another renders it a far greater danger to our business now than previously. A supply of capital at a fairly low rate, and at a rate which may be expected to remain tolerably constant, is as important to trade as a steady supply of food and other necessaries of life to everyone, and of the materials on which he operates to the manufacturer. Instability in the rate for money tends to render the results of trade more uncertain than they otherwise would be, and is sufficient even to prevent business enterprises from being entertained

which otherwise might be carried out to the advantage of the country."[1]

Many suggestions for remedying the evil have been brought forward, but none have found sufficient favour in the eyes of the majority of bankers to stand much chance of success.

Among them may be mentioned the adoption of the German system of an "elastic limit" to the fiduciary issue of notes by the Bank of England. The German Bank Act of 1875, which is founded to a large extent upon our Bank Act of 1844, allows to the issuing banks of the German Empire a note issue equal to the total cash in hand added to a fixed fiduciary issue, differing in amount in the case of each bank. This is the same as in the case of the Bank of England, except that while the latter's "cash" must be at least four-fifths gold and the remainder silver, the German "cash in hand" may be either gold coin or bullion, current German coins, Imperial paper money, or notes of other German banks. There is a further regulation that the total note issue must be covered by cash to the extent of one-third, and bills of exchange with not more than three months to run for the other two-thirds.

Then follows the "Elastic Limit" clause as follows:

"*Section* 9.—Banks whose circulation exceeds their cash plus their share in the fixed fiduciary issue, have to pay to the Imperial Exchequer on the excess issue a tax of 5 per cent. per annum. 'Cash' consists of German coins, Imperial paper money, notes of German banks, besides gold and foreign gold coins calculated at 1,392 marks per lb. fine."[2]

Both the Reichsbank and some of the less important

[1] R. H. Inglis Palgrave, "Bank Rate and the Money Market," preface.

[2] Paper by Hermann Schmidt in the Journal of the Institute of Bankers, April, 1905, p. 202.

banks of issue in Germany have widely and constantly availed themselves of the permission granted by this clause, and the operation of the clause has afforded decided satisfaction to the financial and commercial classes in Germany. But it must be remembered that the conditions ruling in Berlin are vastly different from those in London. In Berlin the Reichsbank can pay their notes in silver if they should find it necessary, while in England gold is the only legal tender by the Bank of England above 40*s*. Then again, there is no really free market for gold in Berlin. If it is inconvenient that gold should be exported from Germany, steps would be taken which would be repugnant to English banking tradition. Our central stock of gold is open to attack from all the world, and any measure by which the proportion of paper money to gold could in times of emergency be materially increased, must, it is felt, be stringently safeguarded. Opinion is general among English bankers that if an elastic limit is introduced into this country, either the power of rendering it operative must be left in the hands of the Government, in which case the difference between the elastic clause and the suspension of the Bank Charter Act would only be one of legal form, except for the tax on the excess issue, or else there must be a proviso compelling the maintenance of the bank rate at a high figure during the operation of the clause.

It may be noted that as early as 1873, two years before the German Bank Act was passed, Mr. Robert Lowe introduced a bill permitting the Bank of England to increase its fiduciary under certain conditions upon payment of a tax upon the excess issue of not less than 12 per cent. per annum, less an allowance of not more than 2 per cent. for expenses. The conditions imposed, however, among which were included the consent of the First Lord of the Treasury

and the Chancellor of the Exchequer, the maintenance of the Bank of England rate for discounts and temporary advances at not less than 12 per cent., and the existence of a favourable state of the foreign exchanges, were so stringent as to deprive the bill of all usefulness, and it was not persevered with.

Another plan was outlined by Mr. J. Herbert Tritton in his presidential address to the Institute of Bankers on 4th November, 1903. He contended that the only way of obtaining the increased stock of gold, which he estimated should amount to £15,000,000 more than at present, was either by an increase of the note issue or by an increase of capital. The former he dismissed as inadvisable, and recommended the issue of further capital by all of the existing banks and the acquisition of a stock of gold with the proceeds. "If each bank of the kingdom," he said, "increased its paid-up capital 20 per cent. by an issue of a 3 per cent. Preference Gold Stock, the fund could be attained. The proceeds should be devoted in each individual case to acquisition of a corresponding amount of gold, in addition to present holdings, and this gold should be deposited at the Bank of England, but not merged in the bank figures, so as to stand week by week intact, and shown under a separate heading in one aggregate, though, of course, the absolute property of each bank in detail. Carefully thought out arrangements, whereby, under a joint committee of the bankers and the Bank of England, whenever occasion arises, a percentage of each holding should be transferable to the credit of each bank in the books of the Bank of England should be made, the gold thus forming an addition to this reserve until again withdrawn and added to the Bankers' Gold Fund." [1]

[1] J. H. Tritton, "Inaugural Address of the President of the Institute of Bankers," 1903, p. 21.

This scheme was not warmly received. For one thing it was too expensive, and demanded a self-sacrifice on the part of each individual bank which was hardly likely to be made without legislative intervention. Secondly, it was too complex. The management of this second reserve by a committee of bankers was viewed with distrust, as likely to lead to complications when put into practice. There was also the danger that some banks, relying on the security offered by this second reserve, would reduce the total of their cash in hand and at the Bank of England, and that consequently the Bankers' Gold Fund would in reality be built up from existing reserves.

Quite recently, in the summer of 1906, the question of increased gold reserves has been taken up by Mr. Asquith, the Chancellor of the Exchequer. Speaking at the Mansion House on 20th June, he suggested that bankers should publish weekly returns instead of monthly, more especially of cash in hand and at the Bank of England. The proposal, however, does not seem likely to find any favour among bankers. For one thing, since only twelve banks have adopted Lord Goschen's suggestion to publish monthly returns, it does not seem likely that without legislative interference, which Mr. Asquith deprecated, the further step will be taken. The object aimed at was to prevent "window-dressing"; but it certainly seems as if this might be prevented by other and less objectionable means, as, for instance, the publication each month of the daily average of cash in hand and at the Bank of England. This would avoid the necessity of publishing accounts on inconvenient occasions. It can readily be understood that there are times when a banker has to reduce his cash balance below the usual amount, either to assist a large customer or for other perfectly legitimate reasons. But he would naturally not care to publish a statement on such

occasions, because it would not truly represent the normal condition of his business, and might be misconstrued. In such circumstances he might be constrained to refuse accommodation which he would otherwise grant. He might even feel it necessary to fix a certain minimum below which he would not allow his cash balances to fall on a day when publication was necessary, and any such hard and fast line would be undoubtedly detrimental to the interests of the banking public.

That a satisfactory solution of the problem will speedily be found is devoutly to be hoped, but meanwhile we are having an excellent object-lesson of the dangers and inconveniences of an insufficient reserve of gold. At the time this is written the bank rate stands at 6 per cent., and there is a strong possibility of a further rise in the immediate future. Yet beyond the need for gold there is nothing to warrant this abnormally high rate. The trade of the country is good generally, in some directions it is unusually flourishing; peace is general. There are, if we except the internal conditions of Russia, no disturbing political conditions, there is no evidence of a prevalence of speculation or of any public uneasiness. The only trouble is the unusually heavy demand for gold for export, chiefly to the United States of America and Egypt. Such a demand is looked for every year at this autumn season, but this year it is heavier than usual, and, owing to our small stock of gold, stringent measures have had to be taken to stop the outflow. To the commercial classes the result is little short of disastrous, and public interest is being aroused on a question which has hitherto been almost entirely confined to bankers and other financial men.

SECTION XXXVII.

THE DEVELOPMENT OF JOINT-STOCK BANKING.

DURING recent years one of the most noteworthy developments in our commercial and business life has been the rapid spread of joint-stock enterprise. Especially has this been so in directions where a large capital is advantageous, if not a necessity. Among banks, the companies registered under the Companies Acts have so increased in importance, and in the volume of their transactions, that they entirely overshadow the private bankers, and threaten before long to absorb them altogether.

The earlier joint-stock banks suffered from handicaps of a varied nature which have now been mostly removed. In the first place there were legal restrictions which fettered their power of action, and from which, as we have seen in previous chapters, they only freed themselves after a long struggle. Secondly, they were for a long time overshadowed by the superior prestige of the private bankers, partly the result of the social and political importance of many of the old banking families, partly the result of long custom and the innate conservatism of the public. Thirdly, and perhaps this was the greatest handicap of all, both directors and officials were often sadly lacking in practical experience of the management of a bank. In many of the early joint-stock banks none of the directors had had any acquaintance with banking methods previous to their appointment on the board of the company.[1] Many of the

[1] See vol. i, p. 429.

officials were in a similar position; the supply of thoroughly trained men was entirely inadequate, and to get over the difficulty, recourse was had to men who enjoyed high social standing. Important as this qualification is in a bank manager, it is obvious that it cannot compensate for an entire lack of business training, and it can hardly have been expected that the retired army officers and others of similar position who for many years were appointed as branch managers of joint-stock banks, could have successfully compared with the private banker who, in many cases, had inherited business instincts and banking traditions through several generations.

Time has to a great extent removed these impediments in the way of joint-stock banking enterprise. The size, the solidity, and the publicity attached to joint-stock banks have partly counterbalanced the personal importance of the partners of private banks. The boards of directors of the former now always contain a large proportion of men who have acquired practical experience, while the higher officials are the pick of a large staff who have had a life-long training in all the details of the daily routine of the office. For some reasons we cannot but deplore the gradual passing away of the private banker in favour of the bank manager. For one reason, we are in danger of losing a type of man which is very interesting and essentially British, and of which we had many reasons to be proud. Another reason is, that, from the point of view of the public, it is more satisfactory to transact business with a partner on the spot, who can answer applications either "yes" or "no," than with a manager who must refer all important questions to a distant board of directors. On the other hand, it may be that we gain in efficiency from having to submit applications for advances to the cold and unsympathetic judgment of a far-away board of directors who

cannot possibly be influenced, however unwittingly, by personal or local considerations.

The development of joint-stock banking has been marked by a series of important landmarks to which attention has been drawn in previous chapters. Their admission to the privileges of the Clearing-House in 1854 was one of these, and was quickly followed by the Act of 1858, which extended to bank shareholders the protection of limited liability. The Companies Act of 1879 was another of these landmarks. It created "reserved liability," and thus allowed the more influential joint-stock banks to give their shareholders the privileges of limited liability without losing the confidence of their depositors. From that year the adoption of limited liability was very rapid, and at the present time all the banks registered under the Companies Acts are thus limited, with the exception of one or two banks, such as Coutts and Co., and Glyn, Mills, Currie, and Co., which are by courtesy regarded as private banks, and the shares in which are all held privately.

The recent development of joint-stock banking has exhibited several very distinct tendencies. In the first place there has been a marked extension of the branch system. Many of the old country private banks are now branches of joint-stock banks with head offices in London, or one of the other large towns. Many towns, which were not sufficiently wealthy to support a local private bank have now a branch of a joint-stock bank, or in the case of the very small towns, a sub-branch or agency, possibly open on one or two days only in the week. In this respect the English system is approximating more nearly to the system in Scotland, where the fact that all the banks are banks of issue led to an early development of branch banks in neighbourhoods where a bank relying entirely on its deposits could hardly have subsisted. This increase

is shown by the figures given each year in the Banking Almanac:

Number of Banking Offices open.

	1886.	Oct. 31st, 1895.	Oct. 31st, 1905.
England and Wales	2,963	4,109	5,422
Isle of Man . . .	15	17	23
Scotland	945	1,016	1,161
Ireland	537	596	779

It will be seen that the increase since 1886 is much greater in England and Wales than in the other two countries, being in England and Wales 83 per cent., in Scotland 23 per cent., and in Ireland 44½ per cent. This extension of banking facilities has been rendered possible, not so much by any reduction in the expenses of management, as by the attraction of new classes of depositors. The volume of the country's banking business has increased in a much greater proportion than have its population and wealth. Half a century ago a banking account was the privilege of the wealthy; to-day it is within the reach of all but the poorest classes. On the one hand the public have been quicker to estimate the advantages and conveniences of payment by cheques, and, taught by the increased stability and greater resources of our banks, have overcome their mistrust of confiding their money to the keeping of others. On the other hand the banks have more fully realized that there is a profit to be gained from many small balances as well as from a few large ones, and have consequently given greater facilities to the customer of moderate or small means.

The growth in the total resources and obligations of the

banks in the three kingdoms is shown by the tables on the opposite page taken from the half-yearly summaries published in the "Economist." It should, however, be noted that these figures are confined to those banks which publish balance sheets. The number of banks not included among these is now small, and the volume of their transactions insignificant, but in the earliest of the three years which we quote they were probably of considerably greater importance. The figures of Colonial and Foreign banks with offices in London are not comprised in the totals.

It is also true that a branch of a joint-stock bank can successfully exist where an independent private bank could not, both because in the former case a profit would be satisfactory which in the latter case would not repay the banker, and also because a branch bank with a head office within a convenient distance can work with a smaller reserve of cash than an independent bank relying upon its own resources.

Private banks have in the past found it less easy to open branches than their joint-stock competitors. The private banker, before the days when he issued balance sheets, relied largely upon his personal reputation to inspire the necessary confidence in his customers, and that reputation was usually a local one. Once outside his own town or circle of towns, he was comparatively unknown, whereas a joint-stock bank, relying more upon the publicity afforded by its balance sheet, had a much greater opportunity of quickly working up a business in a fresh locality.

But although the spread of branch banking has been fostered both by the tapping of new sources of profit, and by the economy due to the larger scale upon which operations are carried on, signs are not wanting that a limit has been reached in both directions. It does not seem as if there were any new worlds for bankers to conquer. The

	No. of Banks.	Paid-up Capital.[2]	Reserve Funds.	Deposit and Current Accounts.	Cash in Hand and Money at Call and Short Notice.
		£	£	£	£
ENGLAND AND WALES:[1]					
October, 1886 . . .	113	53,089,548	25,984,951[3]	330,125,920	89,756,152
October, 1896 . . .	128	68,423,860	29,722,987	614,146,402	186,968,591
October, 1906 . . .	72	67,504,493	37,775,840	712,280,302	212,158,120
SCOTLAND:					
October, 1886 . . .	10	9,052,000	5,759,809[3]	81,522,870	16,822,778
October, 1896 . . .	10	9,302,000	5,889,473	94,337,415	21,937,537
October, 1906 . . .	11	9,316,070	7,919,440	101,062,202	24,110,438
IRELAND:					
October, 1886 . . .	9	6,888,470	2,929,827[3]	33,301,392	6,721,242
October, 1896 . . .	9	7,109,231	3,128,517	45,565,565	10,214,307
October, 1906 . . .	9	7,309,231	4,029,000	53,958,856	9,976,446
TOTALS FOR THE UNITED KINGDOM:					
October, 1886 . . .	132	69,030,018	34,674,587[3]	444,950,182	113,300,172
October, 1896 . . .	147	84,835,091	38,740,977	754,049,382	219,120,435
October, 1906 . . .	92	84,129,794	49,724,280	867,301,360	246,245,004

The returns for England and Wales in 1896 and 1906 include those of private bankers publishing accounts, but no private bankers' accounts are included in 1886.

The figures in the above table do not represent the position of the banks on any one day, but are extracted from the latest available balance sheets, published on various dates, at the times stated.

[1] Including the Isle of Man and the Channel Islands.

[2] In the case of the private banks included in the totals for England and Wales, the Reserve Funds are included in the totals of the Paid-up Capital. The decrease in the number of private banks in England and Wales is therefore the cause of the apparent decline of the total Paid-up Capital, amounts formerly included under the latter head being now included in "Reserve Funds."

[3] Including undivided profits.

habit of banking has permeated through all classes and throughout all districts, and many of the new branches which have been opened in recent years are undoubtedly the outcome of the banker's desire to protect himself against his competitors rather than of a wish for greater expansion. In many cases, no doubt, new branch banks are necessitated by increase in population and the growth of new industrial centres, but this is not always the case. Look at the list of new branch banks published each year in the Banking Almanac, and it will at once be noticed how often, in a small town which has never yet supported a bank, two or even three branch banks are opened simultaneously. It is easy to guess the state of affairs. The inhabitants had previously divided their banking accounts between the banks of a neighbouring town, and when one of these banks decided to open a local branch, the others were driven, by fear of losing their connection, to offer similar facilities to their customers. This has been taking place on a large scale for some years past, and it is practically certain that branch expansion cannot be carried much further without an increase in the expenses of management out of all proportion to the value of the new business acquired. This tendency is hastened by competition between bankers and competition by other bodies. The competition between bankers is shown in the increasing amounts spent by banks in the erection of handsome and costly buildings, and in the cutting down of rates charged for loans and the raising of rates for deposits to such a point as seriously to threaten future profits. Competition from outside is being felt in several directions. Many municipalities advertise for deposits at rates with which banks can hardly hope to compete, because these municipalities do not think it necessary to burden themselves with the expense of keeping any cash reserves whatever.

Other municipalities vary their methods of borrowing by offering their bills at three or six months to the public for tender, though these methods are similar to the former in the absence of cash reserves to meet the bills at maturity. To the severity of this external competition, especially in the large towns of the North of England, must be attributed the experiment made by some of the banks in opening savings departments, as was noticed in an earlier chapter. In risking this experiment they are embarking upon a form of banking which has always proved difficult to manage without loss, and they are competing with such semi-philanthropic bodies as the Trustee Savings Banks, and also with the Post Office Savings Banks, which, in spite of the statements of the Postmaster-General, we cannot admit to be run on business lines, and which would probably show a serious loss if the accounts were published in such a way as to afford a correct view of their real position.

The second notable characteristic of recent banking developments is the tendency to concentration, which is as remarkable as the expansion of branch banking which we have just noticed. The number of individual banks is diminishing as rapidly as the number of banking offices is increasing, and the size and importance of each bank has grown correspondingly. Either by purchase or amalgamation the smaller banks are quickly disappearing. The number of banks in England and Wales, excluding the foreign and colonial, and Scotch banks with London offices, and also certain London financial firms which, though sometimes recognized as bankers, yet do not carry on the kind of business which is usually associated with the name of bank in this country, was, in 1886, 337. In 1896 it had dropped to 242, and at the close of 1906 the number was but 107. In this respect also we

are approaching nearer the Scotch system, though it is very unlikely that the process of concentration will ever become so complete as in that country, where the number of banks is only eleven, or as in Ireland, where there are but nine banks. The process by which the smaller banks have disappeared has been a very interesting one, and has taken three principal forms, roughly corresponding in point of time with the order in which they are here mentioned: the fusion of the private banks with the larger joint-stock banks; the absorption of the smaller of the London banks by the more important country banks; and the union of the larger banks with each other.

The purchase of private banks by the more important joint-stock banks has usually been due to the desire of the latter to obtain a country connection, or to acquire a footing in a fresh district. The process was hastened by the years of abnormally low rates of interest in the London Money Market in the years 1892 to 1896. During these years, when bankers were constantly unable to obtain even as much as 1 per cent. for money lent at call and short notice, many of the purely London banks, without country or suburban branches, found their earnings seriously diminished. In the country interest rates do not so readily respond to the fluctuations of the Bank Rate. Interest is steadier because the risk is greater, and the advances upon "gilt-edged" securities are comparatively few. Most of the money which banks advance in the City of London is secured by parcels of "first-class" bills or "gilt-edged" Stock Exchange securities. Much of it is advanced for very short periods. Consequently, although the risk is small, the rate of interest is usually low, especially so when the demand for money for trade purposes is a small one. In the suburbs and most of the provincial towns, however, the number of first-class bills in circulation is small. The

commonest form of bill offered for discount is that drawn by the manufacturer or wholesale dealer upon the retailer, and there is usually an element of risk about such bills. Other forms of security offered to banks are usually, too, of a more speculative or less marketable nature. Trading and manufacturing houses put all their spare capital into their business, and cannot, as a rule, produce bearer consols or other government stock when they wish for an advance. The rates which the banker charges are therefore fixed to cover risk as well as pure interest. Consequently the banks with country branches suffered less severely during the period just mentioned, and the advantages of a business spread over a wide area, and therefore less liable to be influenced by any one set of causes, was readily recognized.

Perhaps the best example of the type of bank resulting from this form of amalgamation is Barclay and Company, Limited. In 1896 the firm of Barclay, Bevan, Tritton, Ransom, Bouverie, and Co., which previous to 1894 possessed no office outside London, joined with the following private bankers to form the joint-stock bank of Barclay Company, Limited, which now possesses upwards of 400 branches: Goslings and Sharpe, London; Gurney and Co., Norwich, etc.; Gurneys, Alexanders, and Co., Ipswich; Gurneys, Round and Co., Colchester; J. Backhouse and Co., Darlington; Bassett, Son, and Harris, Leighton Buzzard; Fordham, Gibson and Co., Royston; Gibson, Tuke and Gibson, Saffron Walden, etc.; Molineux, Whitfield, and Co., Lewes; J. Mortlock and Co., Limited, Cambridge; Veasey, Desborough and Co., Huntingdon; Woodall, Hebden, and Co., Scarborough; Sharples, Tuke and others, Hitchin; and Sparrow, Tufnell, and Co., Chelmsford.

The private banks absorbed by this class of amalgama-

tions were not necessarily declining in prosperity, though in some cases, perhaps, they had been seriously affected by the competition of joint-stock rivals. But even though the business which the partners sold was in many cases thoroughly sound, it was generally recognized that the chances of rapid expansion would be increased by amalgamation with a large bank with ample capital and a widely extended connection, and it is therefore probable that the larger banks were enabled to offer tempting terms which it was difficult to refuse.

The second class of amalgamations was that of the more important country banks, usually joint-stock banks, with the lesser London banks, and the motive of such amalgamations was the desire of the former to obtain either a seat in the London Clearing-House, or at least a London office. Membership of the Clearing-House confers a prestige which cannot otherwise be obtained, and, besides this prestige, it brings with it a saving of expense by doing away with the necessity of a clearing agent. Moreover, the possession of a London office enables a bank to lend money the more readily in the London Money Market, and so to use money which would otherwise either possibly have to be kept idle, or to be employed in more permanent loans which would be less readily available in emergency, and would therefore weaken the position of the bank. Practically all the small London banks thus absorbed were therefore members of the Clearing-House. For instance, the old established private bank of Fuller, Banbury, and Co., in the City, was purchased by Parr's Bank, whose head office was in Warrington; the Royal Exchange Bank was absorbed by the Birmingham Banking Company, Limited, resulting in the formation of the Metropolitan Bank of England and Wales, Limited. The Central Bank of London was purchased by the Birmingham and

Midland Bank, Limited, whose head office was in Birmingham, thus forming the London and Midland Bank, Limited.

The third form of amalgamation has been between the larger banks themselves, whether private or joint-stock. The motives for such amalgamations as these have been of a varied character. Probably ambition, both personal ambition and the ambition to raise the status and power of the banks concerned, has exerted an important influence in this direction. The desire to see the bank with which one is associated raised to the first rank among its competitors is a natural one, and this desire is undoubtedly strengthened by the increase in power and influence which accrues to the chairman or managing director of a banking company which has gained a position of importance.

To this motive must be added the desire to broaden and strengthen the basis of the bank's operations by extending its area. A bank whose operations are confined to the area of a single industry or group of industries, is in danger of finding itself too closely bound up with the fortunes of that industry. Take, for the sake of example, a bank whose branches are confined to the cotton district of Lancashire. When the cotton trade is "booming" the demands upon the accommodation which the bank can give will be very heavy. Every manufacturer will wish to expand his output to the utmost, and will almost certainly require the assistance of his banker. Very probably the local bank will be unable to respond entirely to the demand, or at least it will be unable to do so without seriously weakening its own position. But a bank whose branches are spread over a wide district will probably be able to transfer to the Lancashire district, funds which are set free by a temporary slackness in the industries of some other district. In like manner, when the cotton trade is depressed, the

local bank may find a difficulty in employing its resources at a profit, while the larger bank will usually find its opportunity in some other area where it has established branches.

What has also favoured the bank with branches spread over a wide area has been the similar spread of trading companies with branches all over the kingdom. These large trading companies have in numerous cases ousted the private trader from the position he once occupied. In such trades as those of grocers, provision merchants, meat salesmen, dairymen, druggists and chemists, bootmakers, and numerous others which will readily occur to the mind of the reader, there are now companies possessing branches in most towns of importance in the kingdom, and such companies naturally prefer to keep a banking account with a bank which can offer them facilities for paying in money and cashing cheques in each town where a branch of the company is established.

Instances of this last-mentioned phase of banking amalgamation are numerous and recent. Parr's Bank amalgamated first with the Alliance Bank of London and afterwards with the Consolidated Bank. The London and Midland Bank joined with the City Bank to form the London, City and Midland Bank, and the amalgamation of the Union Bank of London with Smith, Payne and Smiths, and their allied country firms resulted in the formation of the Union of London and Smiths Bank.

In some quarters the gradual reduction in the number of banks and the growth of some of the individual banks, has been regarded with apprehension. Anything in the shape of monopoly has for centuries aroused intense jealousy and dislike in this country. The establishment of a new bank which shall do business on anything except the smallest scale, has long been a matter of great diffi-

culty, and is fast becoming an impossibility, and fears have been freely expressed that the diminution in the number of banks will lead to the stifling of free competition, to the detriment of the interests of the banking public.

Whatever may be the chances of this happening in the future, there is certainly no reason for complaint on the customers' part with regard to recent development. At no time has competition between bankers been more insistent, at no time have the interests of the customers been better looked after. There is an entire absence of all the signs which point to the establishment of a monopoly; no mutual agreements to prevent the cutting of lending rates, no division of the country into districts. Indeed, competition, especially in provincial districts, has been carried to a point which threatens at times to overlap the bounds of decency.

We are told in some quarters that such competition is inevitable and entirely healthy; that bankers can no more expect to escape its stress than bootmakers or any other traders. Such reasoning is not, however, entirely convincing. That banking competition is both necessary and healthy, looking at the matter from a broadly national point of view, is undeniable. But excessive competition, which is productive of evil in most branches of commercial activity, becomes a serious danger to all classes of the community when banking interests are involved. The position of the banker is one of the highest responsibility. He is in a sense the trustee of the public; he has the control of immense sums of money (the deposits in the hands of the bankers of the United Kingdom amount, it should be remembered, to nearly nine hundred millions sterling), and the financial prosperity of all classes depends to a great extent upon the use made of this money. Anything which

would tend to a dangerous or speculative use must be regarded as deplorable. If any confirmation of this point of view is required, it can be found in a passage written in 1905 by Lord Goschen in his "Essays and Addresses on Economic Questions."[1] Lord Goschen, as Chancellor of the Exchequer, probably inspired as much confidence in the City of London as any man who ever preceded him. He had an intimate and practical acquaintance with the higher branches of finance, and his utterances have always commanded attention and respect. Moreover, although his acquaintance with bankers and banking problems was large, he was not himself a banker, and it cannot be said of him that he allowed his interests to obscure his judgment. The passage referred to is as follows:

"I earnestly hope that the transfer of many a fine old-fashioned banking firm with family traditions of a century behind them, to the more impersonal management of limited companies, may in no wise have affected the sense of caution as the primary duty of the present administration of colossal deposits.

"One duty in these modern stirring days must always be kept in view—the imperative duty to resist the temptation created by excessive and ubiquitous competition. Not to lose a customer by too severe an examination of his overdraft may be insidiously suggested to managers by the siren 'ambition.' It is currently said that the competition among banks has never been so sharp as now. Shareholders, too, may be exacting as to dividends, and watch for purposes of invidious comparison those of rival banks. Under the stress of such pressure from without, and ambition from within, it is imaginable that less steady business might be entertained than the old-fashioned banks would

[1] Page 51.

have regarded with favour. These are possibilities only—I hope temptations only. But, in comparing the present with the past, it may be admissible to point out the possible influence of a new atmosphere as well as the immense progress and the vast improvements which we witness in so many directions to-day. The country has been permeated with banking facilities. Rival banks offer their activities in every country town. Every class of trader, in town and country, has better means for carrying on his business; and, provided boards of directors insist on curbing too exuberant a competition, the extension of the system, with all its advantages, may doubtless have been effected without any risk of forfeiting that unquestionable stability of which the representative firms gave so splendid an example in the time with which these articles deal" (*i.e.* 1865 to 1868).

Lord Goschen speaks cautiously and restrainedly, being no doubt unwilling to give offence; but the "too exuberant competition" of which he speaks, and against which he warns bankers, undoubtedly exists in many parts of the country. The responsibility lies with the directors and not with the managers whose ill-opportuned zeal is the immediate cause, and unless the former insist, as Lord Goschen urges, on curbing this zeal, the consequences are likely to be serious. There is fortunately every reason to believe that the important London banks and many of the more influential country banks have carried on and are still carrying on their business on sound and conservative lines, but we are told on the authority of Mr. J. Spencer Phillips,[1] the President of the Institute of Bankers, that some of the country banks have approached perilously near the margin of safety in the conduct of their business.

[1] See "Journal of the Institute of Bankers," Dec., 1906.

In normal times the danger may not be great, but when the pinch comes, and it generally comes unexpectedly, the weak spot may easily prove fatal. Once let the public suffer by the failure of one or more large banks, and bankers will most probably find that means will be taken to force them to curb their attempts to attract new business at whatever cost. Hitherto bankers in this country have been singularly free from legislative interference in any direction, with the single exception of the issue of notes. But the idea has long been gaining ground that it may be advisable, and that it is possible, to impose legal restrictions upon the creation of credit by bankers in other forms than that of the issue of notes. That any such attempt should be made would be, from the bankers' point of view, regrettable; but whether it will be made or not, will depend upon their own actions. Provided banking is carried on so as to maintain the confidence which has been justly earned in the past, there is not much likelihood of legislative interference; but should Lord Goschen's "possibilities" become realities, and excessive competition lead to unsoundness in method, we must not be surprised if the public interfere to protect their own interests.

There are other considerations which are forced upon our notice by some of the manifestations of unrestrained competition, which, if rumour speaks rightly, are occasionally to be met with. If these reports are true, bank managers have, in some instances, allowed themselves to be led into acts which are both undignified and indecorous. Bankers have in the past prided themselves upon sharing with the learned professions a code of professional etiquette which, though not enforced by any authoritative body, has been generally recognized and obeyed. The banker's or bank manager's relation to his customer is a confidential and a responsible one, and imperatively demands that the

former shall not act in any way which shall imperil the intimacy of this relation. In the great majority of cases there is every reason to believe that bank managers have respected this implied rule of conduct, but it is equally certain that in other cases they have descended to tactics which are quite inconsistent with the position they occupy. That a bank manager can personally approach the customers of other banks and endeavour to persuade them to move their banking accounts by promises of better terms or other specious offers, and still hope to maintain the respect and confidence of the latter, seems inexplicable. It is certain that the directors of any bank which esteemed its own reputation, would not only not encourage such acts, but would promptly suppress such ill-considered efforts. If persisted in they are bound to affect the position of the bank which permits or fails to prevent them, and the latter will find itself deserted by the better class customers, who are naturally the more profitable class, and be more or less dependent upon those others who, possessing no scruples of their own, are willing to disregard unscrupulous conduct on the part of their bankers.

SECTION XXXVIII.

THE NOTE CIRCULATION.

THE history of banking in England has been a history of the steady decline of the relative importance of the issue of notes compared with the other functions of a banker. When the Bank of England was founded, it is clear from the wording of the Charter of 1708 that it was considered necessary to a bank's existence that it should have the power of issuing notes. But during the eighteenth century the London private bankers, whose notes could never compete successfully with those of the Bank of England, found that deposit banking offered a profitable field for enterprise. The abolition of notes under £5 in 1826, and the establishment of joint-stock banks in London under the Act of 1833, were further steps in the dethronement of the bank note in this country. Yet, when the Bank Act of 1844 was passed, the whole of the tremendous interest aroused by the preliminary inquiries, and the Parliamentary debates upon the question, seemed to centre round the right of note issue, and the restrictions which should be placed upon the right, while the power of creating credit by giving the right to draw cheques, was ignored. Sir Robert Peel even went so far as to say that "he thought there was a clear distinction between a promissory note payable on demand, without any personal guarantee beyond the credit of the issuer, and any other form of credit." What that clear distinction was he did not say, but as he thought it unnecessary to discuss the

effects of other forms of credit, he presumably thought the difference an essential one. If so, it must long have been recognized that Sir Robert Peel was wrong. The difference is one of detail only, and if he had rigidly adhered to a gold basis for the whole note issue of the country, and compelled every note issued to be secured by gold of an equal amount, he would not, by these means only, have provided any safeguard against an over-issue of credit.

As it was, the restrictions imposed upon the note circulation were sufficient to force the current of banking development into other channels, which were left practically uncontrolled except by the prudence and caution of individual banks and bankers. The quality of "elasticity," of which we hear so much in American banking controversies, was practically taken away from the note circulation by the Acts of 1844 and 1845, and its place has been taken by the elasticity which, within certain bounds, belongs to the creation and exchange of bankers' deposits. The growth of these deposits has been the outstanding feature of modern banking. Statistics are not obtainable for the earlier years, because it is only recently that the majority of bankers have published balance sheets, so that we are forced to fall back upon estimates. If we accept these, we find that in the United Kingdom the deposits, including capital and note issues, were estimated by Mr. Newmarch at £250,000,000,[1] while now the deposits alone are known to be £867,301,360. This amount represents rights to draw cheques payable on demand, or to withdraw money at an agreed notice, and these rights are continually transferred from one bank to another, extinguished by the payment of gold, or added to by the creation of fresh rights in exchange for gold or for future promises. The development of the note issue during

[1] See "Journal of the Institute of Bankers," 1904, p. 81, Sir Felix Schuster's article on "Foreign Trade and the Money Market."

the same period is in striking contrast to the figures we have just quoted. In 1844 the authorized note circulation of the Bank of England against securities was £14,000,000, and the average total of notes issued £27,934,000.[1] Of these £7,853,000[1] were held in the Banking Department of the Bank of England, leaving an active circulation in the hands of the public of £20,081,000. The authorized issue of 279 country banks, which we may take to be the active circulation also, since it was based on the average actual circulation, was in 1844 £8,631,647. This gives us a total active circulation in England and Wales of £28,712,647. On September 26th, 1906, the authorized note circulation of the Bank of England against securities was £18,450,000, and the total of the notes issued £51,181,000, of which £22,090,000 were held in the Banking Department, leaving an active circulation of £29,091,000, which about represented the average for the whole of the year. The authorized issue of the thirty banks retaining the right of issue was on 22nd September, 1906, £1,582,184, but the actual circulation only £509,989. This gives a total active circulation of £29,590,989, as against £28,712,647 in 1844. But we must remember that of the Bank of England notes which we have described as "in the hands of the public," a very large proportion, very probably the greater portion, is held as till money by the various banks and branch banks throughout the kingdom. When we remember the enormous increase in the number of such banking offices, as described in the last chapter, all of which offices must keep a stock of bank notes as till money, a stock which of course varies according to the extent of the bank's or branch bank's liabilities and the character of its business, we are forced to the conclusion that the amount of notes so held must be appreciably

[1] Palgrave, "Bank Rate and Money Market," p. 11.

greater than in 1844, and that therefore the total active circulation outside the banks must now be considerably smaller than in 1844.

It is evident that something has taken the place of the notes which the increase in the country's business transactions would otherwise have demanded, and it is hardly necessary to state that the substitute is cheques. As has just been stated, the difference between a cheque and a bank note is one of detail only. Every one who possesses a cheque-book has the power of issuing what is in effect a bank note, except that it has the credit of the individual behind it instead of the credit of the bank, and that for this reason its life is shorter, and it does not circulate so freely from hand to hand.

Although most banks have not the power of issuing notes, yet they can all, within very wide limits, create the power to draw cheques. Whenever a bank makes a loan of a thousand pounds to a customer, it transfers its own credit to that customer, giving him the right to draw cheques for a thousand pounds, and the effect upon the currency of the country, with the reservation just mentioned, is the same as if the bank had issued a thousand pounds in notes, presuming, as we reasonably can presume, that the customer draws the whole amount of the loan. Banks are, of course, limited in this power on the one hand by the demand for loans on the part of its customers, and on the other by the fact that the greater part of the cheques so drawn will have to be met within a short time. With regard to the first limitation, which applies equally to the issue of notes, most banks could probably, except in abnormal times, find more borrowers with good security than they are willing to accommodate. With regard to the second limitation, a large proportion of cheques drawn by customers have to be met within a short time; they are

presented through the Clearing-House or over the counter, and are paid, a small proportion in cash, and the larger proportion by transfers from the bank's balance at the Bank of England or London agent. But some of the cheques so drawn will probably be paid to the credit of accounts kept with the bank on which they are drawn, and the time when the bank will have to meet them is indefinitely postponed. To this extent the bank has created credit in just the same way as if it had increased its active circulation of notes.

This development of the use of cheques almost to the exclusion of bank notes is peculiar to England, if we except certain of the British Colonies. It is no exaggeration to say, "almost to the exclusion of bank notes," for the notes of the Bank of England in very few instances circulate freely from hand to hand as notes do in other countries. Their use is almost confined to those transactions in which legal tender is necessary or desirable.

The reason is not far to seek. England is emphatically a country of towns. Distances are short, and business is centralized in London to an extent unparalleled in any other country. The following extract from the Report of the Special Currency Committee of the Chamber of Commerce of the State of New York, adopted on 1st November, 1906, aptly illustrates the different spheres of the cheque and bank note.

"Between a bank note and a bank check there is no essential difference. The depositor, to be sure, is a voluntary creditor of a bank, and the checks written by him do not circulate widely without endorsement, whereas a bank note is an acceptable substitute for money among people who have little or no knowledge of the issuing bank. Nevertheless both the check and the note are representatives of money, and both must be redeemed on presenta-

tion. They have, however, different spheres of usefulness. The home of the bank check is the town and the city, where people keep their funds in banks. The bank note, on the other hand, properly belongs in the country, among people who have no bank accounts, with whom it is quite as effective as money itself" (p. 6).

The country demand is in all countries for legal tender, whether paper or coin, or at least for notes which, if not actually legal tender, are commonly accepted as such. This demand becomes acute at periodically recurring seasons, and in most countries the money sent into the country in response to this demand is locked up for some time. In England, however, what money is wanted for use in agricultural districts quickly finds its way back into the towns. Money circulates rapidly in all districts, and our coinage is sufficient to supply the need. At some seasons this domestic need is greater than others, but seldom so much so as to cause inconvenience. But in many countries the case is very different. In the United States, for instance, the autumn of every year brings with it an enormously increased demand for money for the country districts, money which will pass from hand to hand without the intervention of the banks. In England wages are almost universally paid weekly, but in the agricultural districts of the newer countries this is not always the case. Consequently, money paid as wages in these countries is tied up for a considerable while; it only filters gradually back to the banks. This gives rise to a periodical stringency of which we in this country only feel the indirect results. Quoting again from the Report of the New York Currency Committee mentioned above (p. 3): "We find, however, that the monetary system is defective in one most important respect, namely, flexibility, and that in consequence the country's business interests are at times seriously hampered.

This defect is due to restrictions which are unnecessarily placed by law upon the use of bank credit. Nearly fifty per cent. of the people of the United States are engaged in agricultural pursuits, and the fruits of their toil are harvested in the autumn. These harvests, and the marketing of the crops bring to bear on the banks a two-fold strain, one for capital, the other for currency. The demand for capital comes from the buyers and shippers of agricultural products, and is, in the main, satisfied by an expansion of bank loans and deposits, most of the payments being made by check and draft. The demand for currency comes principally from the farmers and planters, who must pay their help in cash" (*i.e.* coin or notes).

These remarks apply to a greater or less extent, *mutatis mutandis*, to many other countries. In Scotland there is a pronounced autumnal demand for an increased note circulation, due partly to the custom of paying the wages of household servants and others in May and November, instead of weekly or monthly. In Germany there are periodical increases of the demand for notes, especially again in the autumn, which are met by the powers conferred by the "Elastic Limit" clause of the German Bank Act.

It cannot be too clearly understood that in most of these countries, this demand cannot be met by an increased use of cheques. As we have just seen, the conditions in England are peculiarly favourable to the use of cheques. Town life predominates largely over country life; communication is easy and distances are short; practically every branch bank in England is within a twelve hours' post of London, and the work of clearing cheques is therefore easy and expeditious. The Americans, who are not a whit behind us in banking enterprise, would no doubt long ago have overcome the inelasticity of their currency, which

has long been a very serious problem with them, by an extended use of cheques, if that had been possible. But the United States is a country of immense distances, and, over a large part, of scanty population. A central clearing-house for cheques is an impossibility, and the establishment of local clearing-houses does not altogether overcome the handicap of distance. By a large part of the population a banking account is not considered a necessity, and many of those who do keep an account, cannot make the constant use of it which we do in England. Hence the necessity for a note issue capable of expansion or contraction, according to the season of the year and other circumstances, one to which we in England are almost strangers. Our English currency, embracing in this term not only coin and notes, but all forms of paper money, is flexible in a very high degree. It is not automatically so, but is controlled by the degree of prudence and caution displayed by the banking community, led by the Bank of England. Of course, elasticity, though a very useful and necessary attribute of any modern system of currency, is one easily capable of abuse, and a possible source of extreme danger. The state of our gold reserves must always decide whether the amount of cheques and notes in circulation or possible circulation can be increased or not. If gold is leaving the country the rate of interest charged to borrowers is raised through the medium of the Bank of England Rate, and borrowing is thus checked.

But although the greater flexibility of our cheque circulation prevents us from directly feeling the periodical pinch for money which the United States and some other countries experience, yet we indirectly feel the results of the necessities of our neighbours. When America, or Scotland, or almost any other country, finds the demand for an increased note circulation exceeding its powers of supply, it

is forced to import gold, and the place where gold can be most surely, and, as a rule, most cheaply and easily obtained, is London. At such seasons, then, especially in the autumn of each year, there is a regularly recurring drain of gold, which forces up the Bank Rate beyond the normal level for the year, and, as Mr. Palgrave has shown in his "Bank Rate and the Money Market," the average monthly Bank Rate stretching over the period 1845-1900, has been higher in November than in any other month, the next highest being December. In the autumn of last year, 1906, the persistent demands for gold for export caused the Bank Rate to be raised to 6 per cent. on 19th October, and to remain at that figure for the remainder of the year. Something like consternation has been caused by the very complete proof this has afforded of the way our commercial classes can be handicapped by the demands of foreigners at a time when our trade has shown every sign of healthy activity, and an almost complete absence of the speculative element which should alone justify such prohibitive rates of interest.

We are faced by a problem which bristles with difficulties, viz., how to prevent the trading classes from being handicapped by prohibitive lending rates, without any interference with the free international market for gold which has been our boast and tradition for so long, and which we believe to be one of the main supports of the financial pre-eminence of London among the nations. It is possible that the solution of the problem may be helped by improvements in the currency systems of other countries, notably in the United States, by which the periodical demand for gold may be lessened, and the paper circulation of these countries be made more elastic. It is almost certain that an increase in our central reserve of gold would enable us to tide over seasons of stringency with much less heroic

methods than are now necessary. Whatever steps are taken should be by the bankers themselves. Legislation may be unavoidable, but it is sincerely to be hoped that resort shall be had to no legislation which shall fetter the freedom of action which bankers have hitherto enjoyed, and which it must be acknowledged they have not hitherto abused.

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